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THE SOCIETY FOR THE ADVANCEMENT OF JOURNAL MANAGEMENT



**Notice of the Annual Conference
December 2, 3, 4 and 5**

Papers in this issue on:

Planning

The Tax on Undistributed Profits

Personnel Management

Day Work Versus Incentives

Scarcity Again!

**Engineering Societies Building
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NOVEMBER, 1936

VOL. I, No. 5

In Two Sections — Section 1

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Comment

TO NARROW the gap between theory and practice is one of the essential purposes of any society concerned to advance the cause of good management. Theory, on the one hand, is not as sometimes supposed, merely an irrelevant statement of ideas developed by someone isolated from affairs. The test of good theory is, of course, the extent to which it draws out of various practices the general truth which applies, or may be made to apply, to many particular cases.

Good theory is not remote or "academic." But it does abstract out of details the common truth they all confirm.

Good practice, on the other hand, is not built up exclusively or even largely by impulsive trial and error attempts to discover the best ways of working. It is developed, when in competent hands, by the use of theory (or generalized statements of good method) intelligently applied to a new situation. It is often the extension of a good principle to include another confirming instance.

Good theory and good practice are thus as interdependent as the two sides of a coin. Together they fertilize, guide, illuminate and economize action. Together they bring science to the service of man.

A Society like ours justifies itself as it helps in general to build a science of administration and management, and helps in particular the individual organization to make effective applications of that science. The process of application is an art. And an art is learned largely in action, by plunging into experience.

We are thus not only supporters of Dean Donham's position (as outlined in a recent article in the *Harvard Business Review*) but we are also the organized exponents of that need and of its fulfilment.

"There is great need," says the Dean, "for a new social science, namely a Science of Administration, where social theory and action must meet."

We stand or fall in the years ahead as our Society helps to create, to publicize and to improve that science.

That's the unique and increasingly invaluable area of this organization's concern. And as servants of a scientific outlook and mandate we serve a master which puts the search for truth and wisdom ahead of the claims or desires of any one group in society to profit by that wisdom.

Annual Conference Program

THE Sixteenth Annual Conference of The Society for the Advancement of Management will be held in New York, on Wednesday, Thursday, Friday and Saturday, December 2, 3, 4 and 5, 1936, at the Hotel Pennsylvania and the Engineering Societies Building.

Some sessions are being arranged jointly by The Society for the Advancement of Management, The American Society of Mechanical Engineers, and the Personnel Research Federation. These societies also are holding their annual meetings in New York during the first week in December.

Preliminary program arrangements are being made to include sessions on the following subjects:

WEDNESDAY, DECEMBER 2, 1936

1. **PLANT LAYOUT.** The economics of manufacturing layout in a varied product plant, to include influence of type of layout, function of feeder sections, flexibility, salvage value, and the function of time studies, will be discussed by A. F. Murray of the Westinghouse Electric and Manufacturing Company. Time studies and their relation to factory layout, will be the subject of the talk by B. C. Koch of the International Business Machines Corporation. John R. Shea, Western Electric Company, will preside. (Joint session with The American Society of Mechanical Engineers.)

THURSDAY, DECEMBER 3, 1936

2. **ORGANIZED FOR HARMONY.** Production men, rate setters and personnel men all deal with workers in maintaining discipline, production schedules, quality, budgets; in setting standards of performance, and wage rates; and in selection, training, rating and collective bargaining. W. G. Marshall, Vice-President; T. I. Phillips, General Works Manager; J. H. Priest, Supervisor Works Industrial Relations; and R. M. Rumbel, Manager Meter Division of the Westinghouse Electric and Manufacturing Company, will discuss the best organization and methods for correlating their work and maintaining harmony in industrial relations. C. G. Stoll, President of the Personnel Research Federation, will be chairman. (Joint session with the Personnel Research Federation and The American Society of Mechanical Engineers.)

3. **TRAINING FOR MANAGEMENT.** How many humanistic subjects, such as economics, sociology, industrial relations, etc., are desirable for those training for managerial positions in Engineering Colleges? What is the best preparation for those desiring to enter the personnel profession? Dr. Harry D. Kitson of Columbia University and Professor Joseph W. Roe of New York University, will speak. The chairman of our Educational Committee, Dr. Hugo S. Diemer, will be chairman of this meeting. (Joint luncheon with Personnel Research Federation.)

4. **TRAINING SKILLED WORKERS.** In order to hold their workers, during reduced production while tooling up for 1937 models, the Pontiac Company recently took the unprecedented step of paying partial wages during idleness. This indicates the seriousness of the shortage of skilled and semi-skilled workers. Best methods for dealing with this situation will be the subject of this session. Papers will be given by Frederick B. Searle of the Henry Ford Trade School and C. G. Simpson of the Philadelphia Gas Works on details of apprenticeship training and training adult workers. (Joint session with the Personnel Research Federation and The American Society of Mechanical Engineers.) Dean C. J. Freund of the University of Detroit will conduct the meeting.

5. **ANNUAL BUSINESS MEETING.** After an informal dinner of members of the Society, will be held the annual business meeting at which the year's activities and accomplishments will be summed up and plans presented for the next year's work.

FRIDAY, DECEMBER 4, 1936

6. **PRODUCTION PROBLEMS.** Individual managements these days have to view their internal problems in relation to the progressive social legislation being enacted. Mr. A. J. Verkozen, Management Engineer of Holland, will talk on his experiences with firms in Europe. How to Lick Present Day Production Problems, is the title of a paper by Thomas M. Landy of the General Electric Company. John E. Black of the Eclipse Aviation Corporation will talk on The Use of Formulas for Determining Time Standards and there will be a paper on The Effect of Administrative Orders on Esprit de Corps by Edward Necker of A. B. Segur & Company. Mr. Frank G. Atkinson of Joseph Dixon Crucible Company will be chairman.

7. **PROFIT SHARING.** In order to help raise consumer purchasing power many companies are sharing profits with employees, some by formal plans such as those of Eastman Kodak and Westinghouse, others by making distributions of varying amounts at irregular intervals, as business warrants. The advantages and disadvantages of profit sharing, and methods of distribution will be discussed at a joint luncheon session with the Personnel Research Federation, at which Mr. Edgar W. Smith of General Motors Export Company will be chairman.

8. **LOWER PRICES OR HIGHER WAGES.** The Brookings Institution strongly recommended lowering prices rather than raising wages or sharing profits. Few companies are following this recommendation. Executives say they agree with Brookings, but do not see what more can be done. We have been fortunate in securing Rufus S. Tucker, formerly of the Brookings Institution; George Soule of *The New Republic* and Emil Lederer, Dean of the Graduate Faculty of The New School for Social Research, to present papers for this joint meeting with the Personnel Research Federation. Howard Coonley of The Walworth Company will preside.

9. **SOCIAL RESPONSIBILITIES OF BUSINESS AND INDUSTRY.** Private business and industry have three responsibilities: (1) to produce more and at less cost than would be distributed under some other social system, (2) to do so in such a way that employees have reasonable opportunities for development of themselves and their families, (3) to use profits in ways that do not lead to interruptions in progress. This subject will be considered at the concluding banquet by Paul H. Douglas of the University of Chicago. (Jointly with the Personnel Research Federation) Ordway Tead, President of The Society for the Advancement of Management, will be chairman.

SATURDAY, DECEMBER 5, 1936

10. **STUDENT BRANCH CONVENTION.** Delegates from the various student branches will meet and present papers in a session which will be conducted entirely by and for the student members. Plans for next year's student activities will be discussed and announcement will be made of the terms of an award to student members.

NOTE. The Annual Conference of The Society for the Advancement of Management is open to all those interested. Members of the Society are invited to attend, without payment of registration fees. Non-members pay a small fee upon registration at the Conference.

On Planning¹

With Especial Reference to Social-Economic Planning

By H. S. PERSON

Consultant in Business Economics and Management, New York

THE principal business of the evening being discussion, and the principal purpose of this paper being to stimulate discussion, I have chosen to employ generalizations, and to omit qualifications to the point of oversimplification, in order to make it easier for you to seize on points for discussion following a single oral presentation of the paper.

The first question is, of course: What is planning?

Planning is a good old English word derived from a good old Latin word, and in its time has meant many things, from a modicum of forethought for accomplishment of a purpose to far-flung detailed plans and arrangements. Therefore, there is scarcely a use of the word among the many uses now prevalent that fails to have etymological authority. In its generic sense everyone has planned, from our prehistoric ancestor who resolved and schemed to steal a bride from a neighboring tribe; through monarchs, priests, peasants and merchants of the Feudal Age; to kings, prime ministers, presidents, generals, legislatures, commissions, business men, managers, farmers, industrial workers, youths, and who not, of the present day. It has been as common as the air we breathe, and until recently just about as much noted and written about.

The fact that in recent years it has come to be the feature of a special experience and a special literature indicates that in addition to the generic meaning the word has acquired an additional, a special, meaning. It is about planning in this special meaning that we propose to have a discussion this evening.

The first significant use of this special meaning, which I will analyze later, occurred a little over fifty years ago when Frederick W. Taylor focused attention

During the early days of the depression the United States broke out in a hectic rash of articles on economic planning. The variety of proposals under that caption made little reference to technique, appeared to assume that planning is something to be procured at the nearest hardware or drug store, and must have left most readers bewildered. In this article Dr. Person reviews some of the fundamental aspects of planning to be provided for in technique, as pertinent to social or economic as to industrial planning.

on the part played by the planning function and the planning room in his system of management. I have a surmise, which I have not had time to verify, that the word may have been employed in an equivalent sense by writers who analyzed the work of the first Von Moltke at the time of the Franco-Prussian War, for in the military technique developed by him functionalized planning had its first definite, significant expression.

Some twenty-five years after

Taylor's early work, the term, with much the same special meaning, yet pertinent to problems of quite a different order, was applied to the lay-out of municipalities or other areas. City planning and regional planning are definite and understandable uses of the term.

Industrial planning, military planning and municipal planning remained dominant fields of usage of the word until after the establishment of the Union of Socialist Soviet Republics, and especially until after the beginning of the depression in 1929. Then the terms *national planning* and *social-economic planning*² came into general use, of which one evidence is their frequent appearance in President Hoover's Research Committee's report, "Recent Social Trends."

Now *industrial planning*, *military planning* and *municipal planning*, as all of you know, have definite special meanings and involve fairly concise purposes and techniques. These terms bring practically the same definite concepts to different minds. But the terms *national planning* and *social-economic planning* do not bring the same definite concepts to different minds. That is because they do not connote either a definite objective or a definite technique. Each one of us has

¹A paper presented at a meeting of the Washington, D. C., Chapter of The Society for the Advancement of Management, June 12, 1936.

²For simplification the terms *national planning*, *economic planning* and *social-economic planning* will be used as interchangeable, although they have different meanings.

his own concept of what national or social-economic planning should achieve, and what elements of procedure are involved in such planning. Hugo Haan of the International Labor Office, who in 1931 came to the United States and made a study of "American Planning in the Words of Its Promoters"³ listed and analyzed nineteen different schemes of national planning which had appeared in the United States during the preceding two years. Others have appeared since his study. In only two or three of these schemes does planning approximate the special meaning of the word as used in the terms industrial planning and municipal planning. In most of them the word is used only in its undifferentiated generic sense. It is therefore worth while to analyze the meaning of the word as used in the combinations *industrial planning*, *military planning*, and *municipal planning*, the professional meaning and the meaning it should also have in the combinations *national planning* and *social-economic planning*.

The special meaning of course rests on the generic meaning. Planning always connotes purpose, objective, looking ahead, and arrangement. And necessarily, it is related to some person or group with a purpose and a more or less defined objective, capable of looking ahead and disposed to make arrangements. But in its new special, professional, sense, planning involves more than that.

First, it is concerned with dynamic things, with change and variability. Production planning standardizes and stabilizes, with continuous revision, every factor that it should and can, and then concerns itself chiefly with variability—notably variations in the quantity and nature of items to be processed. Merchandise planning attempts to do the same thing, except that it can stabilize fewer factors and must concern itself with a greater number of variables. Market research is a search for relative stability in the consumption habit patterns of large numbers. In general-administrative planning the opportunity for stabilization is relatively small; but by using the data of market research, and data derived from studies of consumption and supply trends, and other environmental factors, it seeks knowledge of probabilities as the nearest approach to stabilities, and arranges and manipulates in the light of such knowledge. In military staff work the capacities of one's own troops, munitions and supplies are the factors of stability, and the purposes, strength, and dispositions of the enemy are the factors of

instability. Strategic and tactical maneuvers—their design and arrangements for them—are the products of planning. In municipal and regional planning the problem and the factors are so different in degree as to be different in quality. The variables are relatively limited; the fixed or static dominant. In making a plan for the development of the physical and institutional facilities of a city there must of course be studies of probable growth and changes in the composition of the population, probable changes in the nature of livelihood activities, probable changes in modes of living, transportation, and so on; but these are changes which register themselves only over long periods, and are not of the same order as changes in the market or in orders to be processed in industrial activities. In areal planning the problem may be dynamic in the perspective of quarter centuries, and occasionally of decades, but not in the perspective of a year or month or day. It is because of this difference in perspective, I take it, that the municipal planners have not yet made any significant contribution to the concept of national or social-economic planning. The contributions so far have been made by industrialists, or by close students of industrial organization and management, who have perceived that national planning has variability as a major factor just as does industrial planning, and must provide for it.

Second, because it is concerned with dynamic forces, planning in the new special meaning of the term must be continuous; not occasional, and intermittent, or "once and for all." We decide to have a picnic, and we plan it, and the matter is done. My family decides to take a summer vacation; it is planned and arrangements made, and that matter is done. A man and wife decide to build a house, they plan it, and that is the end. Municipal and other areal planning of physical and service factors is similar in these respects. Areal planning may proceed from one element of the problem to another—now municipal buildings, next transportation, then recreation, and so on—and in that sense never come to an end, but with respect to each phase the plan is relatively final. But in production planning, merchandise planning and general policy planning in industrial enterprises, the problem is one of continuously meeting change; of designing and re-designing; of arranging and re-arranging. National planning likewise must be continuous because it is concerned with change.

Third, planning in its special meaning is a phenomenon of groups or institutions having relatively continuous existence and operations. It aims at

³ Published by the American Academy of Political and Social Science, Philadelphia, March, 1932.

creation of a continuing institutional mind for a co-operating group, a mind that endures even though the individuals composing it come and go. The special meaning of the word did not come into use until the appearance of the modern type of factory with its relatively complex structure and relationships, and the modern type of army. In this special meaning planning is a function of collective activity in achieving a collective objective or in solving collective problems. It appears to be a function essential to the welfare, or even the survival, of institutions and of complex social groups having within themselves complicated and delicate relations among the members.

Fourth, in this special meaning, planning is dependent on research. Its functional purpose is to make plans and arrangements that may be expected to achieve the objective. It must, whenever and wherever possible, substitute certainties and probabilities for hunch and guess. In production the plans are based on knowledge, derived from experiments, of the behavior of machines and operatives under every probable variation in processing conditions. In merchandising it makes intensive market studies, or experiments in a limited market, before it works out merchandising plans involving major activities. In making military plans, the general staff of an army studies and experiments with every factor—the behavior under varying conditions of men, armaments, vehicles and other supplies—and through its intelligence department studies the strength, dispositions, equipment and other characteristics of the enemy. One reason planning in this new special meaning is a phenomenon of institutions and groups, is that these involve so many specializations and other variables that more precise knowledge of all relationships and other factors becomes a condition to successful functioning and survival of the group.

Fifth in this special meaning, planning is therefore concerned with co-ordination. It had its origin in large and complicated organizations, characterized by a high degree of division of labor, primarily for the purpose not only of avoiding neutralizing conflicts among specialized efforts but especially of bringing them into a common reinforcing relationship. The individual in planning his personal activities does this more or less automatically and unconsciously; he is a co-ordinating unity. But as organizations or other groups increase in size, and as specialization of responsibilities and activities develops, there likewise develop cross-purposes, interferences and sometimes unperceived direct oppositions. Although increase in size and specialization may

create a setting technically favorable to more efficient functioning of the unit parts of an organization, the interferences and oppositions in their relationships, unperceived and unintentional, may not only neutralize this potential greater efficiency in units but may cause a net reduction in efficiency. Planning is a function which has been developed to eliminate these interferences and oppositions through co-ordination of the activities of the specialized members.

Sixth, in this special meaning, planning itself as a function must be specialized. It *must* be specialized. Even the individual, when he would plan effectively, must act in a dual capacity. He must at one moment be, as it were, a planning self different from his executing self of another moment, and in each self must call into play a special set of capacities. This is usually automatic and unconscious. However, an individual who is both a first-class executor and a first-class planner is rare. The qualities required, respectively, are not often found in combination. Planning requires a temperament and capacity which revels in fact-finding, calm and keen analysis, logical synthesis, perfection of arrangement for achievement of objective. Execution requires a temperament which is dynamic, wants to get results promptly, rides over or adjusts to obstacles, overlooks imperfections, and is satisfied with approximations. It should be recognized that each calls for a different set of abilities not frequently found in one individual and never found in all individuals of a given organization. Therefore, one of the basic features of good organization is separation of planning and execution.

There is need of separation of planning and execution on another ground than that they require different kinds of abilities. Even when both kinds of abilities are present in the same individual or the same group, the dynamic character of the abilities required for execution is likely to dominate the analytic and contemplative abilities required for planning; and execution's insistence on immediate action and results will not allow the time necessary for planning and design. Inherently, execution is intolerant of planning. Consequently, almost invariably the executive capacities paralyze the planning capacities when the one individual or group attempts to perform both functions. The functions are distinct and are complementary. Planning is a specialized service function which serves the executive functions of a group.

There are other important aspects of this order of planning which should be noted.

Its general purpose, its motivation, its philosophy, so to speak, is the substitution of the laws of a situation for arbitrary guesses and assumptions. As situations increase in size and complexity an individual or a group for that reason and because the span of attention is limited, especially if they are occupied by day-to-day executive tasks, knows off-hand little about the real facts of a situation. If an objective is to be achieved by arrangements, those arrangements must be made in terms of underlying controlling facts and their relationships. This is why effective planning rests so heavily on research and experiment. These are necessary to discover the underlying controlling facts. One of our great executives, director of a far-flung organization, once said that he did not have to make decisions any more; the planning room made them for him. Of course that was not true; it was an exaggeration for the sake of emphasizing a point. What he meant was that the planning room provided him with such an array of substantial underlying facts of each situation that judgment was made easier; that in many instances the facts indicated clearly the desirable policy and plan. The function of a planning unit is first to discover the pivotal and controlling facts of a situation, then analyze them in terms of the objective, and finally to synthesize them into a plan for achievement of the objective.

Therefore there must be a defined objective. Otherwise there can be no starting point for planning. The unknown cannot be planned; casualism cannot be planned. Even if the objective be simply exploration—of situations as well as of places—the exploration is a definite objective for which plans can be made. Peary had a specific objective—to get to the North Pole—and his planning was probably the finest job of planning ever made up to that time. Byrd, on the other hand, had exploration as his objective; yet his planning was on a par with that of Peary's—in fact, involved a greater number of factors. A business may make a precisely planned exploration of the marketability of a new item. A campaign committee may plan precisely the exploration of public reaction to an idea. A people may plan exploration of the possibilities of its own evolution. But always for successful planning there must be a defined objective—to accomplish something or to discover something. Sometimes planning begins as exploration and then substitutes therefor achievement of a discovered specific objective.

Planning of the order we are discussing always gives dominant weight to the functional necessities inherent in achievement of objective. Starting with a concise

definition of the result to be achieved, it then analyzes the process of achievement and lays out the things that must be done to obtain the desired result most perfectly, in the light of accumulated experience. At this stage it makes no difference whether it is possible to do all the things that must be done; whether the precise abilities and facilities are available; whether special prejudices and habit patterns interfere. A tentative plan must be laid out in terms of the functional things that must be done and the best way of doing each unit thing, as though the way were clear. Then, and then only, should obstacles and variations from the best be considered. This establishes a situation of correct relative valuations. If some of the things that must be done are not possible, or cannot be done in the proper manner, then adjustments must be made. Something different in degree from the original objective must be substituted, but this approach always discovers that some of the obstacles can be removed and others can be circumvented, and it stimulates incidental planning to remove obstacles. Any other sequence of steps in planning is likely to permit obstacles, prejudices and exceptions to dominate the planning and cause too great a degree of variation from the original objective.

However, planning for action is realistic; uses available facilities and conforms to irremediable limitations. There may be such a thing as an ideal plan, which is not now but it is hoped some day will be applicable. There is no such thing as a present "good plan, but it will not work." To be a good plan, a plan for action to achieve a desired objective must work. Therefore it must use facilities that are available; must employ the individuals involved in the situation; must take into consideration their individual and group psychology; must regard existing institutions; insofar as none of these can be changed by subsidiary planning.

Planning must be concerned not only with a lay-out of the nature and time-relationships of things to be done to achieve the objective, but it also must be concerned with planning modes of execution. Planning therefore plans administration. It is not accident that the planning department of an industrial concern is also the methods department.

The question is sometimes raised whether planning of this order does not compel a high degree of "regimentation" in execution of plans. There is a certain naivete in this question, when put as it generally is. The question usually gives the impression of an assumed absence of regimentation if planning is not present. Practically everyone who is employed in this modern

day of employer-employee relationships is regimented by the habit patterns of the enterprise, even if there is not effective conscious planning; and the employer is frequently regimented by circumstances, especially if there are many variables, perhaps more than is the employee. An unplanned and poorly managed enterprise is as much a complex of compulsions which cannot be disobeyed, as is a planned and well managed enterprise. The question should be put as follows: Is there more regimentation in execution of planned operations than in execution of unplanned operations?

My judgment is that generally planned operations do not represent more regimentation, but that the regimentation is defined and delineated. In talks with workers who have become used to scheduled operations, and in talks with production managers where production is governed by planning, I have never encountered one who desired to go back to conditions prior to planning. They have said they felt freer and easier under planning; knew what was wanted in detail; what they were doing; what was ahead. Under earlier conditions they had known only what they were doing at the moment, and not always whether they were doing it right. They did not know exactly what was wanted and exactly what was ahead. They had always to be ready for and adjust quickly to the unexpected. They had been regimented by chance under the earlier conditions, but it was not realized and understood. They were likewise regimented under the conditions of planning, but the regimentation was mapped. They felt freer and more comfortable under the system of known regimentation than under regimentation by the unknown. One thing we should keep in mind; wherever there is effective co-operation of specialized efforts for the accomplishment of a desired result, whether it is planned or unplanned, regimentation is present if the result is achieved. Generally, planning does not add to this regimentation. It simply acknowledges it. Probably, on the whole, it reduces it, by eliminating some of the uncertainties and inhibiting chance forces.

In economic society, the more there is large-scale enterprise, division of labor and specialization, production and marketing of parts rather than consumable wholes, employer-employee relationships, dependence on monetary valuations, debtor-creditor relations, and so on, the more there is need for order. National planning would take inherent chance regimentation and give it order, and in so doing eliminate some of it. Even in a society of chance compulsion, leisure and other opportunity for self-expression in joyous living may be realized by those

favorable by inheritance and exceptional capacity, but for the great mass these advantages can be realized only in an orderly society. And an orderly society can come only from planning. Such planning need not violate the integrity of democratic institutions. It should preserve and enhance them.

It is frequently asked also, whether planning of the type we are discussing requires centralization and destroys decentralization. Here again there is confusion in the question itself. In the first place, the question assumes an antagonism between centralization and decentralization, although these are really complementary. In the second place, the objective and the functional ways and means of achievement are what determine the relations between centralization and decentralization. In planning, both centralization and decentralization are employed; frequently in the planning itself, and practically always in the execution. If a general decides that a defensive guerrilla campaign is the best strategy, decentralization is emphasized. If he decides that a grand offensive made up of co-ordinated maneuvers is the best strategy, then centralization is emphasized. But even in the latter instance there is much decentralization. Grand strategy is highly centralized. But divisions or corps are given goals requiring subsidiary planning rather than detailed instructions. And farther down the line regiments are given goals requiring local planning rather than detailed instructions. The nature and the scope of operations are what determine the relations of centralization and decentralization, rather than the fact that they are planned. For technical reasons the American game of football emphasizes centralization; but for technical reasons also the English game emphasizes decentralization.

Planning is by planes, and execution is by corresponding planes. Beginning with the definition of an objective, proceeding to analysis of functional or areal scope, and then to analysis of functional ways and means of accomplishment, a planning agency discovers that there are logical groups of functions, ways and means. Design of the grand strategy of operations, and definition of the parts to be played by each of these major groups, is of necessity completely centralized. But the internal strategy of each of these major groups is planned by an agency within that group. Although this decentralized planning is conditioned by the task assigned the group, both planning and execution of the task are effected within the group. And likewise, the group plan carries instructions to subordinate units, and we then get a further degree of decentralization of

planning. Conditioned by the assigned task, each unit plans the execution of its task. And it might astonish a general audience, but not this audience of industrial experience, that an operative performing detailed tasks, even though he is working to very definite work-order slips, has a genuine responsibility for planning the execution of his detailed tasks. It is essential for those interested in planning to understand that planning harmonizes centralization and decentralization; centralizes some functions, decentralizes others to a suitable degree, and decentralizes others still further.

I want to touch on one other characteristic of planning, very much in the minds of people who have not given much thought to national planning. Would such planning require dictation on the part of the Government as to what people may consume?

My reply is that, with the exception of plans intended to conserve certain basic non-replaceable national physical assets, planning would not have to dictate consumption.

In fact, its starting-point should be the natural and spontaneous consumption of the people—conditioned by undifferentiated forces in their environment, of course, but not by any “authority.” Probably some influences that now impair the opportunity and freedom of consumer choices—such as some kinds of advertising—should be removed, in order that choices could be as free and spontaneous as possible; but free and spontaneous choice should be the very basis of the planning. We should live to live, and to express ourselves joyously. Promotion of that should be the major objective of social-economic planning. Assurance of, first, economic security, and second, of freedom for self-expression, should be the great goal.

The best-managed of business enterprises today start their planning by analysis of the market and ascertainment of consumer demands, qualitative and quantitative. Then they plan to satisfy those demands.

And the nation itself, in any planning on a collective plane, should begin by ascertainment of the qualitative and quantitative demands of its individual members, and should make those data the starting point of its planning for a satisfying national income and general economic security.

I have not thus far undertaken any special discussion of national or social-economic planning. So much has been written and said about these without any clear understanding of the order of planning which they would involve, that I have assumed our discussion would be promoted and directed along more profitable

lines if there were a fairly complete preceding analysis of what that order of planning really means. My discussion of social-economic planning can be very brief.

I shall not argue the need of real national planning, for that phase alone could not be exhausted in a whole evening's discussion. I have come to the conviction that genuine national planning, in the special meaning of the word planning, is necessary to establish social stability,⁴ increase the national income, raise the standard of living of low-income groups, and to achieve a reasonable degree of economic security for all citizens. The development of technology in the United States has been the most remarkable in the world, but the assimilation of it has perhaps been the worst, and the resultant economy is probably the most unstable. I believe that relatively *unrestrained* economic individualism has completed the constructive contribution it has to make to the development of the United States, and has become a negative factor. On the other hand, I believe that, if properly geared into a regulated economy, individual ownership, interests, activities and profit-seeking can be made socially useful, even though profits may come to be not much more than another name for wages of management. I believe that a planned economy would result in a great superstructure of free competitive small enterprises resting on a solid foundation of publicly-owned, or publicly-regulated, industries concerned with services and conversion of basic materials. Especially must management of the currency and credit, banking, transportation and communication, and the industries converting and distributing basic energies and materials be part of that foundation.

This credo indicates that I do not subscribe to the need for sudden and revolutionary change to effect national planning, and that I stand for directed evolutionary progress; although I must confess a fear that failure to achieve direction of evolutionary processes by planning in a reasonably short time may force our children into a situation of revolutionary change.

If we keep in mind the analysis of planning, in the technical meaning of the term, which has been presented this evening, and also keep in mind the characteristics emphasized, and then if we review in our minds the twenty-five or thirty schemes that have been proposed to the public, or been expressed in emergency agencies of government during the past five years, we shall realize at once that few of them were based on clear

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⁴ Not a static but a dynamic stability; as of rider on a running horse, a ship at sea, an aeroplane in flight.

The Tax on Undistributed Profits

By DAVID M. FIGART

PRIOR to the passage of the 1936 Revenue Act partnerships and individuals had to pay both normal taxes and surtaxes, but corporations paid only the normal tax of 12.5 to 15 per cent of net earnings. If large stockholders were more interested in capital appreciation than in income, they would cause earnings to be put to reserve rather than distributed as dividends, and they would thus escape a surtax on personal income which ranged from 4 per cent on \$4,000 to 75 per cent on over \$5,000,000. The government was thus deprived of a substantial amount of revenue in the higher income brackets when profits were undistributed. On the other hand, the stockholder with a small income would pay little if any tax when corporate earnings were distributed as dividends; whereas the government took from 12.5 to 15 per cent of his share of these earnings when they were put to reserve.

One feature of the 1936 Revenue Act is the revision of the normal corporation tax so that it now ranges from 8 to 15 per cent. The outstanding feature, however, is the imposition of a surtax on undistributed profits, ranging from 7 per cent on one-tenth of net income to 27 per cent on over six-tenths of net income. The purpose of this surtax is to force profits through the tax mill so that they will be subjected to the graduated individual surtax rates. This is expected to result in greater revenue through abolishing a practice whereby wealthy stockholders avoided taxes in the past. Thus by imposing higher taxes on the wealthy corporate stockholder, and lower taxes on the stockholder of moderate means, the revenue system of the country is brought more into line with the principle of taxing according to ability to pay, which was written by amendment into the Constitution and is well established by popular endorsement.

Much opposition has been expressed to the tax on un-

The purpose of the tax on undistributed profits—according to the Commissioner of Internal Revenue—is to correct inequalities in the taxation of incorporated and unincorporated businesses, and increase Federal revenue by removing important sources of tax avoidance.

Such a tax, however, may have greater value as a regulator of corporate practice, accomplishing automatically many of the purposes heretofore attempted through elaborate government control or voluntary co-operation.

distributed profits, chiefly because it puts a penalty on the retention of profits for expansion or for other purposes, and cramps the style of corporate executives. Introduced as a revenue measure, it is by its very nature a regulatory measure. One political party favors its repeal.

Nor is the tax completely satisfactory to those who stand for the principle of taxing according to ability to pay, since it compromises with this prin-

ciple by permitting the retention of a part of earnings under comparatively light penalties, instead of forcing the distribution of all earnings so that they will go through the tax mill.

Despite its shortcomings, there are those who feel that the present tax on undistributed profits embodies one of the soundest principles of legislation ever enacted by Congress. They base their opinion on the anticipated effectiveness of the tax not only from a revenue standpoint, but as a regulator of corporate practice. They believe that since corporations wield such a tremendous power over the welfare of our people, they should be regulated by government; but they recognize that if such regulation is to be practicable and inoffensive, it must be simple. And among the merits they claim for the tax on undistributed profits is that it is one of the simplest means of regulating industry that has been devised.

Since the revision of the corporate tax is certain to come up in the next Congress, it would perhaps be more to the point to base this discussion on the ideal form such a tax might take—assuming its continuance. For example, the law might be more effective if it encouraged corporations to provide against emergencies by exempting from taxation such reserves as are earmarked for specific purposes, so that they would become available to maintain community purchasing power when the emergencies should arise. Thus the ideal tax

law might permit corporations to set up reserves to be earmarked for depreciation and depletion, research and development, unemployment insurance and dividend maintenance, together with a limited general emergency fund. These reserves might be in the nature of revolving funds, with the privilege of restoring them in case of depletion. All earnings above such earmarked reserves should be subjected to a tax sufficiently high to compel distribution in the form of dividends or wage bonuses.

The size of these earmarked reserves might be left to the discretion of individual corporations—with some stipulated maximum—since there would be no object in accumulating unnecessarily large reserves when they would no longer be available for expansion or for other purposes not specifically provided for in the earmarking. Nor would there be any point in the corporation permitting such reserves to become sterile by not using them for the particular situation for which they were earmarked. The important thing is that all earnings in excess of the reserves would automatically be distributed, thus insuring a steady flow of goods from producer to consumer, with no damming up of the distribution system at any point.

From the standpoint of government revenue, if corporations paid out surplus profits to avoid the penalty tax, and if reserves were exempted from taxation, the government would receive no revenue whatever from corporations as such, but would tax the distributed profits after they had reached the shareholders and employees under the graduated income schedules. This is sound tax theory, for it places the burden of government directly on individual citizens, where it belongs, and levies the cost according to ability to pay.

I

This discussion will be divided into two parts. The first part will review briefly the reasoning that leads logically and inevitably to the theory that a tax on undistributed profits is the simplest and most effective method of regulating business. The second part will be devoted to examining the more important arguments which have been advanced against a tax of this kind.

In our political and economic beliefs we fall into two main schools—one standing for government control of industry, central planning, and like measures, the other standing for a minimum of government interference.

In seeking an answer to the paradox of poverty amidst plenty most people follow the same general line

of reasoning up to a point. For example, they will observe that though we have ample raw materials, plant capacity, skilled labor and capital, there are millions of men who can find no work, and millions more living in semi-poverty. Warehouses are filled with goods people cannot buy because they have no money. The first deduction is therefore likely to be that not enough money is being distributed in the form of wages and dividends to enable the people to buy the goods they produce.

At this point some students will branch off into the money school, and urge that government print more money, or manage the currency to raise prices, or something of that nature. Others, refusing to believe that the mere manipulation of the medium by which goods are exchanged will result in more goods, see the fundamental problem to be one of maldistribution. They point to an apparent overexpansion of industry, and recommend spending less money on factories and machinery and paying higher wages and dividends.

This appears convincing, but it does not tell the whole story. For the money a corporation spends on new factories and machinery goes back to the community in wages and dividends just as certainly as if the corporation paid it out to its own employees and stockholders in the first place. For example, if a shoe factory wants to enlarge its capacity, it must buy steel and cement and machinery, which means wages for the men who work in those trades and dividends for the stockholders. If the shoe factory distributed this money to its own workers and stockholders instead of buying new equipment, this would not increase the purchasing power of the community; it would only put it into the hands of different persons. But it might cause distress in the steel and cement and machinery industries, for without the orders from the shoe factory some of these industries might have to go on part time.

Since the truth of this is obvious—everyone knows how severely the capital goods industries have suffered as compared with the consumable goods industries—many thoughtful men have turned to government control as the only alternative. Seeing no justification for periodic depressions so long as we possess ample resources to supply our wants, they conclude that private enterprise has failed. Thus Dr. Tugwell, in "The Industrial Discipline," expresses a desire for "some control over price which would prevent abnormal corporate earnings; . . . a governmental reserve fund to replace the reserve funds of individual businesses; . . . some central management of the allocation process. . . ."

Opposed to government control are those who believe

that changing the people who shape industrial policies, by modifying our present industrial and political systems and substituting government control, simply changes the people who make the errors in judgment. They refuse to concede that a group of fallible human beings, by the simple device of assuming government status, will be better able to run a huge industrial machine than the trained business executives who have spent their lives with it. While possessing a real sympathy for the aims of the opposing school, they recall that government control measures never work as planned.

Is there any possibility of harmonizing these viewpoints?

Economists in the past have been accustomed to term a society *laissez-faire* where competition was free and where there was an automatic adjustment of supply and demand through the profit motive. But the rise of the great corporations, representing tremendous concentrations of wealth under the control of a few, has brought an end to the automatic functioning of economic laws.

Various reasons have been advanced for this. Probably the situation is described simply and accurately by saying that corporations no longer conduct their operations year in and year out with the sole object of making a profit, as has generally been assumed to be the case. While the usual reason a corporation expands is because its business is profitable and growing, we can all recall numerous instances where corporate executives expanded because they were losing money, or because they wanted to become industrial giants, or because they wanted to drive out competitors, or for some other reason where profit was for the time being completely subordinated or ignored. Whether their motives were good or bad is unimportant. The important thing is that through their handling of community funds, as represented by profits accumulated in surpluses and reserves, and in new stock issues, these executives adopted uneconomic policies which led to interrupted distribution of goods, unbalanced investments, destructive competition, and finally widespread unemployment and suffering.

Part of the difficulty arose from thinking in terms of money instead of goods. Take the position of a corporation which had ten million dollars of accumulated profits listed on its balance sheet as reserves or surplus. It would undoubtedly consider itself in a strong financial position. But suppose this ten million dollar surplus was represented by accumulating inventories, or by a factory extension which could not be operated at

reasonably normal capacity—then the corporation might find that what it had regarded as a most valuable asset was in reality a liability. It would have a substantial amount of its past earnings tied up in brick, mortar and machinery for which it could find no use; and though this idle equipment looked well under the heading of "surplus" on the balance sheet, it was actually an obstacle to progress in good times, and a discouragement to recovery in bad times.

The point we have generally missed about corporate practice is that though reserves are represented on the balance sheet by dollars, corporations do not have dollars in reserve; they have goods and plant in reserve; and it is the unconsumed goods and the idle plant that directly or indirectly bring bad times. Instead of the accumulation of profits and reserves being the goal of business, it is something that must actually be avoided if we are to have no interruption in prosperity.

We have nearly lost sight of the importance of profit as a potential governor of industry. Some of us have assumed that in certain respects society has outgrown the profit motive. Nothing could be further from the truth. Profit is the measure of the utility of a product to a community. When profit changes to loss, it is a danger signal pointing either to obsolescence of the product or mismanagement of the business. Profit is one of the most profoundly significant things in modern society. Those who would abolish it for the good of society would abolish what is potentially their best friend and ally.

To reduce the possibility of human error and place industry on a basis where the profit motive will act as an automatic regulator in fact as well as in theory, it is necessary to curtail the arbitrary power of corporate management over investment funds by compelling the distribution to the community of all earnings over certain earmarked reserves. In this way the mass judgment of the community will control investment policies, and that judgment will of necessity be influenced by whether a corporation desiring to expand has demonstrated its utility to the community by a record of profits—which is the only sound guide. Thus free competition will be restored and we may again experience a balanced economy.

II

In commenting on the effect of the new tax on reserves, one critic remarked that "all (businesses) should save part of their profits in a period of prosperity in

order to be strong and safe in a period of depression." A law which exempted earmarked reserves from all taxation would of course encourage this type of saving. Even the 1936 Revenue Act permits the retention of from 30 to 40 per cent of profits at no greater tax than payable before. But the full significance of this criticism is not apparent until we consider what is meant by making a business "strong and safe" and what we mean by "depression." Are we thinking simply of a piece of paper with figures on it, called a "balance sheet," and how these figures change as the months of depression go by? Or are we thinking of millions of unemployed men, and the suffering they endure through the idleness of the productive equipment—of which the figures are but a symbol?

In citing how corporations survived the depression because of their reserves, critics of the surplus tax overlook the fact that the very existence of the depression damns the system under which it developed. There was no shortage of raw materials, or labor, or of factory space, or of transportation facilities, or of capital. There were no great catastrophes such as war, famine or flood. Whatever function the corporate reserves performed, they did not result in the continued production of the goods the community needed.

The problem is not how to make a corporation depression-proof, but how to make a community depression-proof. And this can be done only by insuring a continuation of its purchasing power through ample earmarked reserves which will become available for distribution when that purchasing power is interrupted. The trouble in the past has been not so much the lack of reserves, but the failure to use the reserves when emergencies arose so that community purchasing power could be maintained. Destruction of purchasing power means an end to profits and dividends, a shrinkage in capital values, a writing down of assets, and oftentimes the destruction of the corporation itself. The only way to make a corporation "strong and safe" is first to make the community strong and safe. Business prosperity is an effect, not a cause.

Another criticism was that Treasury estimates under the new tax might turn out to be radically wrong, and that fiscal gains might be disappointing. An effective tax would force distribution of all profits above exempted reserves, so that what was formerly taxed as corporate income would become subject to tax as personal income. This would not alter the base of taxation.

Revenue depends on national income, not on corporate income. To achieve continuity in tax policy we

must first insure continuity in national income by preventing periodic interruptions, and next stabilize the cost of government at reasonable levels. That is why the tax on undistributed profits is important as a regulatory measure, as well as a revenue measure; for if it helps to maintain prosperity, the question of revenue will take care of itself.

The government's need for revenue can be met more easily under a system where surplus profits are distributed than where they are withheld. The reason for this is that under a system of taxing corporate earnings before distribution, the poor stockholder pays just as much tax as the wealthy stockholder, and this acts as a check on industry. There is a great deal of misconception about taxation. Every tax reform measure is met with the charge that it is another attempt to "soak the rich." The fact is, it is not high taxes that hurt the rich; it is low taxes. The only way you can really soak the rich is by taxing the poor. That is to say, if too large a proportion of taxes is assessed against the poor, it will reduce their standard of living; and the decreased consumption of goods will slow up industry, reducing the income of the wealthy as well as bringing a drastic shrinkage in their capital. But these same taxes can be levied against the higher brackets without harming any section of the community—rich or poor. For the wealthy can consume only so much. The balance of their income must be "saved"—which means invested. All too frequently there has been overinvestment resulting in cut-throat competition and eventually destruction of the investments themselves. A diversion of a part of these investment funds into taxes might serve to protect fortunes, rather than destroy them.

The surplus tax has been criticized on the ground that high income taxes check saving by men of substantial fortunes and high estate taxes drive men of large fortune to cease putting new funds into industry. The substance of this argument is that since stockholders might not want to reinvest profits they should be deprived of any choice in the matter. Corporate management has no right to formulate policies without regard to the wishes of the stockholders.

But there is another phase to this question. Bernard Ostrolenk, in an article in the *New York Times Magazine* for April 19, 1936, said: "Many big businesses . . . have been kept alive only by the artificial means of stock issues, borrowings and financial manipulation." Carl Snyder, of the New York Federal Reserve Bank, in an article quoted in the House Hearings on the tax, said: "A considerable part of this new capital was put

into poor concerns and thereby lost." This shows the need for some restriction on corporate investment policies.

The New York *Times* of March 7, 1936, remarked editorially that "the capital goods industries . . . depend overwhelmingly for their revival and expansion upon the reinvestment of corporation surpluses." This is not exactly correct. The capital goods industries depend primarily on the demand for consumption goods. There is no object in building new factories if we can't consume the products of the present factories. The *Times* goes on to say: "The creation of these new capital goods cumulatively increases the volume of consumption goods that American industry can turn out year by year for our people. It increases the productivity of the American workman, and hence his earning power." The *Times* describes the situation as it should be—not as it actually is. We should enjoy a steadily rising standard of living, but instead suffer periodic interruptions in the flow of goods which we are equipped to produce but may not consume.

The New York *Times* points out that "out of the \$1,658,000,000 capital invested in (eight automobile) companies in 1926, all but \$335,000,000 had come from reinvestment out of the surpluses." But while emphasizing the growth of industry through reinvested profits, the amount of capital destroyed in the process is not mentioned. Many companies have fallen by the wayside, and they were not always the inefficient. For while the theory of competitive industry is the survival of the fittest, it is frequently the financially powerful rather than the fit which survive. Moreover the old capital driven out is not always obsolescent, and its destruction is often pure economic loss. Apart from these factors there is nothing in the example cited by the *Times* to indicate that had profits first been distributed to stockholders, and their reinvestment invited on the strength of earnings, the industry might not have grown just as rapidly.

Were corporate management wise enough to take exactly the right percentage of annual profits and reinvest them in plant expansion or modernization to permit a steady growth in consuming demand, and then to pay out the balance in increased dividends and wages, we would probably have no problems to solve. But corporate executives are human, and are subject to human limitations. That they do not possess the wisdom necessary to maintain a balance between investment and consumption is proved by the periodic breakdowns in the industrial machine.

Another way in which trouble might be avoided would be if corporate executives continued buying capital goods whether they needed them or not, but, having accumulated an oversupply, did not try to earn profits on the excess capacity. Such investments would be economic waste, but the capital goods industries would be kept busy.

The trouble comes through a failure to correlate the need for capital goods to the effective demand of the community; and the only way to correct this is to put the community in position to express its mass judgment as to whether it wants more capital goods by its willingness to pay profitable prices for all the goods being turned out in existing factories. That means that investment must be measured by earning power, not dictated by arbitrary opinion of corporate management. The distribution of surplus profits will not only build up community purchasing power, but will create a real, not fictitious, demand for more capital goods to meet the higher living standards.

One criticism of the tax is that it is an attempt to substitute government control of industry for the judgment of corporation directors who are in a better position to know the problems of their own companies. The New York *Times*, recognizing the weakness of the old system, commented editorially on March 5, 1936, as follows: "What is required is greater prudence and a keener sense of community responsibility on the part of those temporarily having control of (corporate) funds. And those qualities cannot be created by statute." That is true. Neither the sense of community responsibility, nor the ability to exercise it wisely if it existed, can be created by statute. But the community savings held by corporations, which are frequently used imprudently and irresponsibly, can be removed by statute from the arbitrary control of fallible human beings and subjected—not to government control—but to the automatic working of the law of supply and demand.

It has been claimed that a tax on undistributed profits would check the growth of small businesses and operate to create and entrench monopolies. There is nothing to prevent the reinvestment of earnings by any business, large or small. In the case of small businesses, it is probable that the tax payable on distributed profits would be so small as not to make any material difference in the funds available for reinvestment in expansion programs. Moreover, the exemption of earmarked reserves from taxation would encourage the weaker companies to accumulate reserves; while the provision requiring reserves to be earmarked for specific purposes

would deprive the stronger companies of funds with which to finance uneconomic warfare against their weaker competitors. Thus the weak companies would become stronger, while the strong companies would remain strong.

A tax which enforces distribution of surplus profits would result in a tremendous strengthening of corporate management, since executives could no longer operate on the basis of financial power but would be confined to efficient management policies which would show earnings. Instead of entrenching monopolies the tax on undistributed profits would eliminate monopolies based on financial power. No one objects to monopolies of efficiency where all are allowed to benefit from the efficiency.

According to one economist "the crisis and depression of 1921 were made very much less disastrous by virtue of the great accumulations of corporate surpluses that had preceded them." Some students take precisely the opposite view, pointing out that in order to avoid paying excess profits taxes corporations launched heavy expansion programs which were an important cause of the subsequent depression. Which theory is correct is unimportant to our discussion. We need only observe that if the possession of ample surpluses is given credit for mitigating the 1920-21 depression, what good reason can be advanced as to why surpluses which this same economist termed "abnormal" did not mitigate the 1929 depression?

In speaking of the extent to which corporations have suffered during the depression, studies of the Treasury Department show that the reduction in surpluses was not caused by maintaining wages and dividends, but through bookkeeping entries called "valuation deductions." The non-financial corporations engaged in manufacturing, mining, merchandising, and similar businesses, had a net income for the three years 1931 to 1933, before depreciation, et cetera, of 11.1 billions of dollars. These corporations charged up on their balance sheets a total of 15 billions for depreciation, depletion, bad debts, and loss on sale of capital assets. None of these deductions represented current cash outlay for employment of labor. The result was that the corporations showed a net deficit of 3.9 billions—not because they paid this out in wages and dividends, but because they wrote down their assets.

Now this is good accounting practice in normal times; but is it good practice in bad times? Consider the logic of the method when applied to an individual family. Suppose the head of a family earns \$2500 a year, and

normally sets aside a reserve of \$500 for insurance, doctors, dentists, and so forth. The remaining \$2000 goes for food, clothing and shelter. If his income is suddenly cut to \$1500, will he still set aside \$500 for emergencies, and cut his family's living standard from \$2000 to \$1000? Or will he reason that since a present emergency has arisen, it would be utterly absurd to continue accumulating funds for some future emergency? Will he not conclude that drawing on accumulated funds to meet the present emergency is justifiable—and, in fact, the only sensible thing to do, since the funds were accumulated for just such an emergency?

What we would regard as indefensible on the part of the individual is called sound practice when indulged in by corporations. Yet corporations, after all, are but associations of individuals voluntarily formed to contribute to the general welfare.

Under a system of earmarked reserves, could corporations have done more than they did to mitigate the last depression? The figures speak for themselves. The cash and investments of all non-financial corporations submitting balance sheets amounted to 32.7 billions of dollars at the end of 1929, and by the end of 1933 had increased to 33.5 billions. Meanwhile some 16 or 17 millions of men had been thrown out of employment.

During the Hearings on the 1936 Revenue Act a plea was made for special treatment of corporations with debt obligations. One reply to this was, "If a man goes into debt, should he be relieved of taxes until his debt is paid?" The creation of a debt obviously handicaps the debtor. "The man who is out of debt and has abundant capital will always have an advantage over the poor individual who is in debt and has a limited capital."

The same thing applies to corporations. But in passing new legislation, the broad principle of community welfare should be the guiding spirit. We may object to the system we are displacing, but cannot be too harsh in dealing with its consequences. The purpose of a soundly conceived tax on undistributed profits is not to cripple business but to aid it; and if some corporations have unsound financial structures as a result of bad practices, and if there is a possibility of their being restored to useful service to the community, some special consideration might well be extended to them.

At the same time it is well to remember that the only fair basis on which one company may compete with another is where capital structures are fairly set up. Frequently, debt is in substance a part of a corporation's

capital; and too liberal tax provisions regarding debt would penalize the wisely managed concerns.

As to the need for re-examining credit lines and bank loans, which was advanced as a serious objection to the tax on undistributed profits, the decrease of cut-throat competition brought about by a distribution of profits would tend to make bank loans safer rather than otherwise. Moreover, both corporate management and bankers would of necessity scrutinize loan applications much more carefully—the former, to be sure that the loans could be repaid without embarrassing the corporation; the latter, to be sure the business of the corporation warranted the loan. The tendency would be for corporations to rely more on working capital, conserving it through wise management. This would obviate the widespread calling of loans and lessen bank closings in periods of financial stringency.

As to the effect of the new tax on speculation, if a corporation were deprived of free reserves beyond those set up for specific purposes, there would be no incentive for speculation—either on the part of the corporation itself, or on the part of individuals. Heretofore our financial practices have been such that the owner of common stock is almost compelled to be a gambler. Occasionally he buys a stock because it has shown an earning history. Frequently he is asked to buy shares in a company which has made heavy losses in order to help it become solvent again. But most frequently he buys shares because he expects to sell them for more than he paid. If income were the controlling factor in investment, the field for artificial manipulation of any kind—whether it be well-intentioned or otherwise—would be eliminated. The tax on undistributed profits will gear stock market prices to earning power rather than to speculative possibilities. For without general reserves, there are no hidden assets to serve as a basis for speculation, no melons to cut.

Perhaps the most important effect of the tax on undistributed profits is that it should increase both dividends and wages. For when earmarked reserves reach the maximum regarded as adequate for all practical purposes—and most of the leading American corporations now possess adequate reserves—the result will be the distribution of all future earnings. It is inevitable that labor will share in such distribution; for management knows that prosperity depends upon purchasing power, which is for the most part derived from wages rather than from dividends, and that it will be to their interest to pay labor all the traffic will bear.

No manufacturer, despite his outlook toward labor,

could operate below proper standards for any length of time; first, because his limited reserves would not permit him to work at a loss, and second, because his labor would soon go elsewhere if unfairly treated. For an industrial society where cut-throat competition has been eliminated would be prosperous, and there would be plenty of jobs.

Moreover, the incentive for taking advantage of labor by capital or management would no longer exist. Without cut-throat competition the need for cutting wages would be eliminated. Manufacturers could demand and would receive a fair price for their product so long as it was something the community wanted. They would be faced with the necessity of making a fair division of earnings between stockholders and labor. Too large a proportion to capital, in the form of high dividends, would not only be a gratuitous inducement to further competition, but would arouse a protest from labor; and labor troubles can easily nullify a good earning history. On the other hand, if temporary adversity were experienced by a company, labor could obviously not demand a share of earnings where there were no longer any earnings to share; and its sympathetic cooperation in solving the difficulties would be assured. This is an example of how conditions would tend automatically to adjust themselves in industry along sound lines, instead of having adjustments arbitrarily imposed by government, through wage or hour or price control.

There is needless misunderstanding over the conflict between capital and labor. The employees of Smith buy the products of Jones, and the employees of Jones buy the products of Smith. It is obviously to the interest of each manufacturer that the employees of the other are paid good wages. And since this is what labor is also striving for, there is no real conflict. When labor fights for better conditions, it may in reality be fighting capital's battle; for only by bettering labor conditions can the growth of capital and its safety be assured.

One important point about earmarked reserves is the way they would permit a corporation to meet varying demand by quick adjustment of production schedules. The possession of unemployment reserves would enable a corporation to cut down operations the moment there was any slackening in demand, charging idle labor against reserves instead of against current operating expenses. Reduced operations could be carried on with little if any loss, and the temporary maladjustment between production and demand would be quickly corrected so that industry could again resume full operations. Meanwhile, the possession of earmarked reserves

from which to pay dividends and wage benefits would maintain purchasing power and the demand for industrial products, and prevent the destruction of confidence.

A great deal of commercial distress has been caused in the past by the small margin of profit—and very frequently loss—enforced upon manufacturers by concerns buying in large quantities. A bill has been passed by Congress to meet this situation. But where corporations are obliged to operate with earmarked reserves, such coercion on the part of large buyers would no longer be possible. Manufacturers could not afford to sell to the large buyers at an inadequate profit, since they would possess no free reserves to absorb continuing losses of this kind; and buyers would have no alternative but to pay a fair price, for they would not possess the necessary reserves to finance the manufacture of the products in new factories, nor could they easily raise the needed capital unless they could show that there was marked inefficiency in existing plants.

There will be periods of necessary readjustment in industry, no matter what measures are taken to prevent

them. But without the necessary free reserves to tide over a long period of losses, a corporation experiencing an interruption in demand would be obliged to face its problem immediately and adjust itself to the shock while it had the reserves to absorb it, instead of becoming a source of infection to the whole community.

The first responsibility of industry is to safeguard its market by keeping men employed. The next responsibility is to employ them efficiently. Technological advances should be translated into more goods, or more leisure, or both. They should never cause unemployment, for that defeats the very purpose for which industry exists. When corporations generally possess adequate earmarked reserves, the problem of technological unemployment will be solved.

Nowhere in these proposals is there any suggestion of government regulation or bureaucratic control. On the contrary, it is believed that the inauguration of a well-thought-out corporate surplus tax system would eventually eliminate a great part of present and planned governmental agencies having to deal with commerce.

(Continued from page 148)

understanding of the nature of economic planning, or constituted even an approach to national planning. I make an exception of the La Follette Bill⁵ and the S. H. Person Bill⁶ and the Clark-Smith-Soule Report.⁷ But generally, proposals either have been attempts to implant some doctrinaire assumption of what an economy should be, and requiring an impracticable radical modification of our political institutions; or have been nominal and unsubstantial, without realism, and without provision for a minimum of characteristics essential to effective planning.

A national planning board, whatever its title, should have the following minimum characteristics:

1. It should be a specialized, functional group without other, especially executive, responsibilities.
2. It should have a defined planning objective expressed at least in general terms, such as "to increase the national income, effect equitable distribution of it, and maintain general economic stability"; and it should have the power to formulate and propose constituent objectives, such as to maintain harmonious relations within the price structure.

⁵ S. 2390, 72nd Congress, 1st Session, 1931.

⁶ H. R. 9315, 72nd Congress, 1st Session, 1932.

⁷ "Long-Range Planning for the Regularization of Industry," Supplement. Published in *New Republic*, Part II, January 13, 1932.

3. It should have authority to gather data of a nature not now gathered by any agency of the Government, especially such data as those pertaining to trends in consumption, production, the national income and its distribution. Only a planning agency itself knows what data are required.

4. It should have the authority to render reports to the President, the Congress, and to the public, including authority to draft suggestive specific legislation or executive action.

It would have to be a Federal agency with the national point of view, although it would use the States and other regional organizations both as assistant planning and as executive agencies. However, it must be recognized that planning and execution can be realistic and effective only when carried out by an agency whose perspective and authority are coincident with the area of the objective being planned.

A public agency with such a minimum of authority and responsibility would be in a position to make a beginning of conscious direction of our economic evolution, and to win by quality of service such other authorities and responsibilities as would be essential to strengthen the contributions it could make to the national welfare.

Personnel Management

Past, Present and Future

By ORDWAY TEAD

Editor, Harper & Brothers, New York

THE National Industrial Conference Board¹ has in one of its most recent studies supplied a conclusive answer to the occasionally met allegation that the depression has caused a devastating setback to personnel work in industry.

In fact this report is perhaps the most comprehensive statistical record of the extent of personnel activities which we have yet had. It is admittedly only a sampling; but as it includes four and a half million workers in 24,502 companies of varying size from all over the country, and embraces not only manufacturing but utilities, stores and mines, it may be taken as representative and reflective of general conditions.

The activities enumerated include virtually all the functions assigned to personnel departments. To two main points only might there have been more attention paid. It would have been interesting if the place and power of the personnel executive in the organization could also have been considered. But since this item is not susceptible to statistical check, it will have to wait for study of another type. And it would further have been significant if some correlation could have been made for all these companies as between the annual earnings of their workers in 1926 and in 1936. But the wage studies of the Board are published currently in another form.

The conclusion is overwhelming, as Dr. Jordan points out in his Foreword, that we have here a development of the last twenty-five years which has had great value in terms of the standards of living no less than the standards of operating efficiency of millions of manual workers. Irrespective of employer motive, the terms and environing conditions of employment in American industry have improved markedly—excepting the wage item upon which the evidence is not here available. And it is also true that this whole developing movement has been accompanied by little fanfare of publicity or of appreciation by the general public of its basic achievement and meaning.

Building up from a review of three books, Mr. Tead here not only summarizes their findings and discusses the past and present developments in the field of industrial relations, but projects these into a discussion of future possibilities.

The present study is factual, not interpretative. It records a variety of activities, policies and attitudes which, while not all in effect in every company, are nevertheless being constantly extended to more and more companies. The need,

therefore, is to take this record as the basis for thoughtful commentary and for some projection of present trends into the future. This is what is here attempted.

Criticisms of personnel work have not been too cogently advanced. In the main they have come most explicitly from the organized labor movement. And on three broad counts. First, it is claimed that the money spent on personnel work could better go into the pay envelope. Second, is the fear that workers will be virtually bribed away from interest in labor unions if terms of employment equivalent to or better than those secured under union agreements are offered. Third, is the allegation that the activities fostered under a broad personnel program are too paternalistic—are undertaken for the workers rather than with or by them.

The time has come to examine these three criticisms. The first is perhaps the least serious. The available figures of the outlay of corporations per worker for the conduct of personnel activities indicate that the per capita expense rarely rises as high as twenty dollars a year, and is normally between five and ten dollars per worker. Also some of this is returned directly in personal services for food and health. Provisions for group insurance are at a low cost which would require either a public social insurance program or an extensive labor union insurance organization to equal.

The cost argument frankly does not strike me as significant. The far more important gains to be made in higher wages come and can come more from greater productivity at lowered costs and from strengthened negotiative power rather than from a curtailed personnel budget.

The second question as to whether good personnel work will forestall interest in joining regular labor unions is more complicated. The reasons why labor

¹ "What Employers Are Doing for Employees," National Industrial Conference Board, New York, 1936, 70 pages.

unions have not developed in the industries and companies where personnel work is furthest advanced are numerous. Not all of these reasons, frankly, are creditable to the employers.

But there is undoubtedly a sincere belief among many managers that they can, should and do offer more advantages to their workers than labor unions could have secured for them,—and at less cost and with less friction. Throughout the twenties, the fact has been broadly true that the strategy of many managers has been to “beat the unions at their own game” and offer terms and conditions which were on the whole at least equal to those offered under conditions where collective bargaining with unions prevailed.

Speaking solely in *material* terms it is probably a fact that personnel management has represented genuine gains for the workers at a level that union agreements might not necessarily have assured. And often these gains have been in situations where for a combination of reasons labor unions had certainly not tried very earnestly to enter and to negotiate an agreement. Corporations, in short, were not merely astute in their extension of employee provisions. They were also following a certain broad humanitarian impulsion which a wiser sense of their own self-interest plus conditions of prosperity, encouraged into being.

It is true that “open shop” drives were occasionally to the fore, that spies were used by some to identify and remove “labor agitators.” These efforts presented real obstacles to the unionizing process. But an important obstacle would seem to have been the inertia of the organized labor movement itself. The recent schism in organized labor’s ranks over the issue of aggressive organizing efforts certainly tends to substantiate this conclusion. In short, the extension of personnel work and the anti-union activities of employers were by no means the only reasons for the relative apathy of labor organizations in the last fifteen years.

It is on the third of these counts that there is need for searching examination of net gains. In other words, should workers have more explicit and more extended voice in control? And should they insist that activities for their welfare within industry be undertaken co-operatively with them or even by them autonomously?

At this point it becomes necessary to broaden the point of view and consider what objectives or purposes actuate the operation of industry—at least as this problem is viewed by the workers. The profit motive is manifestly present. But that there exist also forces

which temper and qualify it is equally a fact. The whole history of industrial development shows a modifying of practices largely under pressure from a general public conscience variously expressed. Indeed, it will be conceded by many today that, implicitly if not legally, the well-being and development of the workers themselves has to be taken account of as requiring at least some consideration in industrial operations. This means a recognition, increasingly more discriminating, of their right to a fuller measure of self-realization, their right to be regarded as ends in themselves and not merely as means to the ends of others however commendable those other ends may seem.

And if this point of view has any weight and influence, as it does, the typical personnel program needs reconsideration. Indeed, even where this program includes the conduct of an employee-representation plan, as is now often the case, the conviction is all too prevalent that the power of the workers in and through their representation plans is not sufficiently great to assure them justice or fair play as *they* may construe these terms.²

This is not the place to elaborate the relative merits of company unions and labor unions. The major point to be raised in connection with the facts offered by the National Industrial Conference Board report is rather that if the true welfare of the employees is rightfully part of the objective to be served by the personnel policies of a company, then the employees must themselves have a much more explicit chance than at present to make plain what they regard as their welfare and as the best means of achieving it.

In the ultimate philosophical sense most present-day personnel work is undoubtedly too paternalistic. It undoubtedly does not give employees enough chance to share in affirming objectives and accepting methods. It undoubtedly does not benefit enough by employee criticism of what is done and how it is done. It undoubtedly does not work enough upon the fundamental educational premise that growth, self-development and reasonable autonomy of the personality are all processes which require that the individual himself make the choices, assume the responsibility, pay the penalty of his mistakes while also gaining from his victories. The one who is doing the learning must do the learning. And this he does only by his own acts—his acts of shared responsibility, group participation and explicit, joint deliberation and consent. He does not

² See in this connection “The Company Union in Plan and Practice,” by Lincoln Fairley (Associated Schools for Workers, 1936).

do it by what is handed out to him, however adroitly or generously.

The basic issue is to be sure that agreement is reached by corporate managements and workers together on two premises. First, on the premise that industrial life and work has to conserve and enhance, among other things, the true personal worthfulness of the individuals involved. And second, on the premise that worthfulness in the individual is achieved by him through effort, experience and choice. It cannot be handed to him on a silver platter even by the best intentioned training director in a personnel department.

If these premises are accepted, they surely lay a good many personnel practices open to criticism. And if they are not accepted, it would seem that we are thrown back upon the conclusion that the only justification for personnel work is its demonstrable contribution to the profits of the business.

Yet I believe it is doubtful if this second position can truthfully be taken today as supplying a complete justification for every last personnel procedure. For it would be difficult to prove that all the usual personnel activities do contribute to profits even in the long look. And actually we know too that the motives prompting their introduction are not always all selfish and calculating. Motives have become somewhat tempered and mixed. Also, the benefits of personnel work clearly accrue to workers no less than to company coffers. And, finally, the direct and indirect public pressure now being brought upon the personnel practices of corporations call for new adjustments and new policies which by no means always assure greater profits.

In a word, it is fair to conclude that personnel management has to be re-examined and appraised on this score of excessive paternalism. Concretely, at the point of selection, training, job standardization, health work, determination of terms of employment, and the like, managements have kept too much power in their own hands. And, as just suggested, the result of such new legislation as the Wagner Labor Relations Bill and the Social Security Bill is to make a greater sharing of control and of responsibility by workers a likelihood to a degree that narrows the areas in which paternalism can be exercised even though employers so desire.

The personnel department and the whole objective which justifies it on broader grounds, therefore, has to go on to become in fact, what many impartial students have long advocated, namely, a *department of personality*. In the next decade we have to accept heartily all the implications of this idea if personnel procedures are

to have their richer and rightful role. It is this deep and fundamental concern for employe growth and welfare in terms that employes no less than managers define, accept and work for which is the basic note, the genuine, future criterion of real success in personnel work. And this obviously means that it will have to strike out into new fields, with a new emphasis and with the elaboration of new procedures and structures.

It is in this underlying sense that personnel work may fairly be said to stand at the cross-roads today. The passing of the depression marks the break with the now traditional conception of personnel management. Its work may perhaps go on as it is—which will mean the effort to salvage something which will become less valuable and less effective with each succeeding year.

Or personnel work can reorient its purpose. It can accept the premises which in the long look justify it as a separable yet integral part of management where it touches the employes. And if it does move ahead, it will find the ensuing years full of creative adventure. It will find the whole personnel idea working with and not against the times. It will find that in democratizing the personnel techniques by a sharing of responsibility and a sharing of results,³ our knowledge of how to bring workers into a true partnership in the operation of industry will be increased. And in this wise, managements will have been instrumental, and not merely oppositional as so many are today, in realizing the ways and means of making workers citizens in an industrial commonwealth. For nothing less than this has ultimately to be striven for.

Furthermore, in so far as managements can be brought to believe in and act on the above premises in their personnel efforts, they will find themselves able to work understandingly with the efforts of workers and of their agents in labor organizations to bring about a state of affairs in which employe power is more fully acknowledged and explicitly used to advance a common interest in low costs and greater productivity.

This whole line of thought and action can be followed. Or we can pursue the other course—of resistance to the workers' demands for more independence and more voice. And the immediate outcome of this second alternative will, frankly, mean a generating of hatreds and of ill-will which may well lead to violent efforts and to abrupt shifts of power which will be literally revolutionary in their consequences. One feels at this point the truth of Francis Bacon's dictum, "He

³ See "Profit Sharing," National Industrial Conference Board, New York, 1934, for similar emphasis upon the importance of sharing results.

that will not apply new remedies must expect new evils."

It is to be hoped that the good in the personnel work of the past and present, will not become an obstacle to the better in the personnel work of tomorrow, actuated as it should be by a more democratic and more individualized motive.

Beyond the criticisms of personnel work which have now been discussed, there is finally the further comment which as a close student of the movement over a twenty-five year period I may be allowed to venture. A whole new set of factors and forces now impinge upon the work of management, affecting especially its personnel phase. Government will unquestionably in a number of ways play a greater part in requiring modifications in certain practices and in assuring certain basic minima of terms and conditions of employment. Already a beginning has been made and no important recession is likely. Governmental support of labor organization and collective dealing is now unmistakably a fact. Equally so is its support of social security as respects old age, unemployment and eventually of illness as well.

As personnel work is better done, and as unit costs are lowered, there will be needed progressively fewer workers in the manufacturing industries. Shifts to the service employments will continue. The lag for individual workers in finding new employments will never be wholly taken up. The allocation of young workers to stable employments will remain a challenging job. In short, personnel management has a more important responsibility than ever in the field of job assurance and employment stability, even from the selfish point of view of sustaining internal morale. The attack upon this problem by single companies acting alone can go only part way to its solution. Here, as in other matters, the *industry*—and an *industry's* personnel policy—will increasingly become the focus of attention and action.

And on the score of the wider distribution of greater purchasing power both industry and the government will no doubt have to adopt a more affirmative policy. Wages, salaries, bonuses,—these are costs; but they are also means of giving people purchasing power (as they can also be incentives).

Personnel management in the future has this new *economic* responsibility of thinking of its policies of compensation as policies also of purchasing power distribution. This will inevitably stimulate interest in some technique of sharing profits with workers. And,

here again, to grapple with this issue with the single plant as the only unit of consideration will be less than adequate to the complexities of the problem. It is by no means inconceivable that in ways yet undreamed of the profits of an *industry* (as these may be defined) will come in for some sort of pooled treatment when the further distribution of purchasing power is being considered.

These last items may be thought to project out present difficulties into other and worse difficulties. But it is only honest to acknowledge that as new problems are approximately settled others arise. The economic and industrial world is dynamic to its very core. We do not have and we should not have any final answers.

Rather the job of management is to see today's problems in terms of the objectives of a democratic society; and to raise our eyes occasionally to the newer problems which tendencies, economic and moral, are thrusting upon our attention.

The prospect is neither discouraging nor disheartening. But it is challenging; and there is no time to lose. There is a world to win if our course is set by the right star to the right port.

* * * * *

As this comment was being completed a significant letter appeared in the correspondence columns of the *New York Times*. Its significance lies not alone in the fact of its general corroboration of the point of view voiced above. It lies also in the fact that the author of the letter, Mr. William B. Dickson, was for years the President of the Midvale Steel Company and later a member of the Board of Directors of the United States Steel Corporation. He therefore speaks with rather exceptional, realistic knowledge of his subject.

The letter is here appended not necessarily to indicate complete agreement with its views but to suggest that one experienced and thoughtful executive of large affairs is mindful of the crux of the problem of industrial relations.

**From Letters to the Editor, The New York Times,
June 28, 1936**

Two news items in your recent issues are grave symptoms of a serious malady which threatens the social order.

I refer to the dismantling of plants by the Remington Rand Company as a result of labor troubles and the armed conflict between strikers and strikebreakers at the Kent (Ohio) plant of the Black & Decker Electric Company. In the case of the Remington Rand Company, apparently they decided "to make a desolation and call it peace." The Black & Decker officials probably never heard of the tragic Homestead strike of 1892,

which was a decisive factor in the election of a President, and a source of poignant regret to all concerned in it. I express no opinion as to the merits of the conflicting claims. The issue is a much greater one; nothing less than the survival of democracy as a practicable form of government.

Let me epitomize my theme as follows:

1. The men who achieved our independence in 1776, in the main, were farmers whose families were each an independent economic unit.

2. Today fewer than 25 per cent of our people are on farms.

3. An overwhelming majority of our workers are employees in mines, steel mills, textile and other factories, railroads, etc.

4. Comparatively few of these workers have any voice in decisions affecting the terms and continuity of their employment. They and their families have lost the old status of economic independence, the *sine qua non* of democracy.

5. These workers, men and women, are voters having the political power to compel the enactment of legislation which may affect profoundly every phase of social life.

6. Manifestly, these two conditions are irreconcilable. This great body of American citizens must be restored to a status of economic independence or, as an alternative, autocracy in industry must be enthroned permanently. This, of course, means the decline and fall of American democracy. This nation cannot endure permanently—politically democratic and industrially autocratic.

We are approaching a climax in social relations which may be one of two things: a definite radical advance in the relations of capital and labor, or a world-wide catastrophe comparable to the dark ages, though differing greatly in its manifestations.

Our industrial leaders fondly believe that industrial autocracy, tempered by benevolent social work, is a permanent status. They are living in a fool's paradise. The choice may lie not between the continuance of the present dominance of capital and management in our industries, and a definite recognition of the right of labor to a status of equal partnership with all that this implies, including representation on boards of directors and profit-sharing; but between the latter and chaos; between evolution and revolution.

There is an increasing number of men, especially among the present "lost generation" of young men, who are ready to destroy our democracy, if they are thwarted in their efforts to attain a status of real manhood. The fact that such a course will be suicidal will be cold comfort to those who will suffer by such an upheaval.

The new order, recognizing the essential equality of labor, should operate substantially as follows:

Capital should receive as wages, (a) dividends based on current savings bank interest or government bond interest, and (b) an additional dividend as insurance against depreciation of principal.

Managers and workers should receive salaries and wages on the only practicable basis—the rates prevailing at the time for similar services. In the last analysis these rates have been

determined by the social order. In addition these two partners should be protected by old-age and unemployment insurance to which they should contribute, and by workers' accident compensation as established by law.

All of these dividends, salaries, wages and other emoluments, including the wages of capital, would be charged against the cost of production. The inclusion of the wages of capital in a cost sheet may seem to be a novel idea. But manifestly all three partners, capital as well as management and labor, must be attracted to the enterprise by the same lure, namely wages, and there can be no real profits until these three partners have received wages at current rates. The profits should then be divided on the following basis:

Each individual ceases to be considered as a member of one of these three classes and is treated as a separate unit, to whom is due a percentage of the profits based on his contribution to the partnership. The denominator of his fraction of interest in profits is the total amount of wages paid to all three classes; the numerator is his contribution as represented by his wages. To illustrate:

A stockholder owns stock of a value of \$100,000. As his wages he receives annually a 3 per cent dividend (current savings bank interest) and an additional 3 per cent as insurance against depreciation of his principal, making a total wage of \$6,000. His share in the profits, therefore, is a fraction, the numerator of which is 6,000 over a denominator (common to all three partners) composed of the sum of all wage payments to all three partners. A manager receives as salary \$10,000; this is his numerator. A worker receives \$2,500; this is his numerator.

If it is deemed inadvisable to distribute all profits, the portion so withheld to be distributed on the same basis in the form of stock or other negotiable evidence of ownership.

The intervention of organized labor leaders between these partners will never cease to be a prolific source of trouble. All of the past record of organized labor leaders is not to be condemned. The unjust methods of employers in dealing with comparatively helpless employees (for instance, in garment sweat shops, and the oppressive seven-day week and twelve-hour day in the steel industry) have fully justified the attempts of workers to secure adequate protection through labor organizations. The objection to organized labor as at present administered is that it does not go far enough. Any system which stops short of equal partnership is at best a makeshift, and at worst, a menace to the social order.

A philosopher has said that the greatest tragedies are due, not to conflicts between right and wrong, but to those between right and right. The tragedy of the present conflict between organized capital and organized labor lies in the fact that a victory of either of these opposing forces over the other will only tend to perpetuate the vicious idea that they are necessarily arrayed in hostile camps; and that their normal relations are those of warfare or, at best an armed truce. By WILLIAM B. DICKSON, Montclair, N. J.

Measured Day Work Replaces Incentives in the Automobile Assembly Industry

By C. B. GORDY

Associate Professor, University of Michigan, Ann Arbor

AFTER operating for a period of several years on group incentive plans, most of the automobile assembly plants, in the spring of 1934, abandoned them for the straight day rate. It was not until the early years of the present century that it was considered possible to tell with any degree of accuracy what length of time it should really take a productive worker to perform an operation; no technical investigation had been made to settle this point. Some of the early wage plans, aside from the piece rate, were predicated on the assumption that this measurement could not be made and, to avoid the dissatisfaction of rate reductions with the piece rate, advocated splitting with management any saving the worker should make under the estimated task time.

Time study eventually demonstrated that the length of time workers should take to perform tasks could be stated with a reasonable degree of accuracy. Of course time study, properly done, did not spread instantaneously throughout industry, and the belief that savings must be split two ways to avoid run-away earnings and consequent cutting of rates was not slow in disappearing. How much of this belief is rationalized into the philosophy that an incentive is necessary to get workers to turn out a fair day's work is difficult to say. About 1913 a new device came into use in the assembly of an automobile,—the conveyor. This also was not adopted to the full measure of its possibilities at once. In fact it was not until 1922 that one plant so arranged its processes that full use was made of the conveyor in the machining operations feeding the assembly line, although this probably is an extreme case in so far as the time of change is concerned.

Layout of Equipment

Gradually, during the time operations came to be arranged in sequence, machinery and bench work were

The whole subject of establishing a basis for paying industrial workers came into prominence again when an important division of the automotive industry decided to change to day work.

Now, after two years in operation, this plan is reviewed and the reasons for its success discussed.

so placed on the manufacturing floors that all operations required for the completion of a part were in one place, one following another so that conveyors could be used to transfer stock between operations. What is known as straight line quantity production manufacturing thus came into existence.

A line, for instance, would be set up to machine completely the flywheel, another the pistons, another the crankshafts and for the other major parts of the car. Departmentalization by equipment was almost entirely eliminated and the layout based upon parts or product. Of course the quantity to be made was an influential factor, for it would not be economically advisable to duplicate milling machines, for example, in adjacent lines unless there were an expectation of utilizing a reasonable proportion of the maximum capacity of these machines. In the rapid expansion in the use of the automobile, however, this did not operate as a limiting factor to any marked degree.

No longer do we find foremen of the milling department, the drilling department, and so forth, but instead, foremen of the crankshaft line, the camshaft line, and for other major parts divisions. It must be realized even now that, for various reasons, some divisions of the work of making an automobile are still departmentalized. Forging cannot, to any important degree, be arranged in sequential form, although conveyors are used extensively in moving the work. Few or no plants have an output large enough to warrant installing a screw machine in a line of machining operations for the production of a particular part. We find, therefore, that a separate department is provided where screw machine parts are made when not purchased from outside sources. However, this paper is concerned with assembly plant procedure, the machining and assembling of the engine, axles and other chassis parts, in which the sequential grouping according to parts is the predominating feature of operations layout.

Effect of Layout on Internal Management

This change in the layout of equipment and in the handling of material had a profound effect on the internal management of the shop and in the controls devised to check direct labor efficiency. Since layout divides the various processes into groups of related operations, it is natural that inspection, cost, efficiency and production scheduling checks should be devised to take advantage of the new arrangement. In the early twenties (information is not immediately at hand to fix the date more definitely) the workers in these lines began to be paid as a group. The argument was that all workers in the group had a close community of interest in the output and would voluntarily co-operate for a maximum output if pay were based on units produced. From the standpoint of management, paying workers as a group reduced the number of checking points for pay purposes as compared with any individual incentive plan, and consequently reduced clerical costs of administration.

In grouping for pay purposes reason dictates that the groups shall be small so that all workers in the same group may be acquainted one with another and hence aware of the contribution each is making to the total effort. Furthermore, workers should be balanced properly as to speed, for if a fast worker is included with markedly slower ones he has little chance of capitalizing on his ability as he might under an individual payment plan. If workers are classed as to speed and the number in the group properly related to the travel of the work, the fast worker could receive the rewards of his greater ability with a group incentive plan.

Two group incentive plans were developed. The bonus was an adaptation of the Emmerson Efficiency Plan made by Mr. E. K. Wennerlund. A standard in time was set by the time-study department to cover all the operations included in each group and the workers were given an individual hourly rate which theoretically would reward the individual for individual merit. The actual hours used by the workers were totalled and divided into the standard hours for the pieces produced to give the per cent efficiency. A small bonus was paid for 75 per cent efficiency, which gradually increased until actual hours equalled standard hours, at which point a bonus of 20 per cent was paid. From this point onward 1 per cent bonus was paid for each 1.2 per cent increase in efficiency. This afforded constant costs above 100 per cent efficiency. For the worker to cal-

culate his pay he must know his group efficiency and then by consulting a table multiply his hourly rate by the appropriate bonus percentage. The second plan was piece work applied to the group as a whole. Although practice varied somewhat, usually the time-study department established the price per piece, or one hundred pieces, and this was divided among the group in the ratio that each worker's hourly rate, times his hours worked, bore to the earnings of his fellows similarly calculated.

There is considerable difference in the practical operation of these plans. Under the piece rate there was no way of rewarding the individual as an individual except by reducing the earnings of the others in the group, unless individual merit resulted in a greater or proportionate output. This necessarily follows from the fact that the sum paid per piece was fixed. Theoretically this was not a limiting factor under the bonus plan since only the time and the bonus percentages were fixed. Practically, however, increases in hourly rates as a reward for length of service, attention to duty, punctuality and so forth did not play a very important part in the administration of the plan due to the tendency of the foreman, who initiated rate increases, to keep rates about the same to avoid arguments. The plans are alike in that the end result, the earned rate per hour, would about equal the ruling rate for the particular grade of labor in the community. This was accomplished by an adjustment of the standard time under the bonus plan, and the piece price under the group piece rate plan, by properly setting hourly rates or by retaining only those workers who could maintain a certain standard of performance, or by any or all of these methods. Control of direct labor in either case was perfect, but under the bonus plan it was necessary to keep each group 100 per cent or better to maintain constant costs.

The Change to Day Rates

Despite this seemingly natural way of paying labor, natural because of the sequential grouping of parts production, most of the assembly plants, in the spring and summer of 1934, abandoned group incentives and began to pay a straight hourly rate. This change was made at the specific request of the workers, expressed in most cases through the works councils then in general use in the industry. The initiative in the matter was frequently taken by management. The workers were requested to vote on what wage plan they preferred. Now after two years of operation there is no

evident desire on the part of the workers to return to the group incentives, nor does management desire to do so. It is to be noted, however, that the shift to day rates is not complete, in fact some companies still operate units under group incentives while other plants under their control have changed to day rates. The feeling is that if a wage plan is working satisfactorily and there is no desire on the workers' part to change, it had better be let alone.

Certain features in the operation of the group incentive plan may be pointed out as accounting for workers' objection to them. In not a few cases, groups, instead of being kept small in order to take full advantage of reduced clerical costs, included up to one thousand men. Whole plants, such as the axle building, were included in one group. In such cases there was no chance for the individual to convince himself that his fellows were bearing their just share of the load, since he could not always see them. Inspection and count for pay purposes came at the end of the lines or groups, and it frequently happened that work completed in one pay period would not be credited to the workmen until the next pay due to the clerical accounting required. Differences in pay checks for this reason were hard to understand and a frequent cause for dissatisfaction, as were differences in the workers' count of completed work as compared with the inspectors' count. Deductions for scrap came three or four days after the scrap was made, which introduced further complications. In one plant one worker out of every twenty claimed a shortage in pay in one pay period. Such shortage claims were general throughout the industry. Investigation indicated that a large proportion of these was due to workers' not understanding how to calculate their pay. In fact many foremen were not able to do so or the trouble might have been eliminated at its source.

There are always difficulties with a new model which have to be overcome before production is secured at a normal rate. Workers have to learn new tasks or variations of old ones, and new tools have to be adjusted properly. Output is substandard for a few weeks. The men may work hard and conscientiously, in fact harder than they did at the end of the previous model, but earnings under the incentive plans would be less through no fault of their own. At such times, if earnings were lower than the usual earned rate for such work, sufficient sums of money were donated or credited to the groups by management. This was satisfactory to neither party. It was treated as an overhead account due to low efficiency. At times non-pro-

ductive workers, such as sweepers or truckers, were added to groups for varying lengths of time, without a change being made in the group standards, which of course lowered group earnings and caused them to fluctuate for reasons not apparent to the workers.

These dissatisfactions on the part of workers were difficulties for management. No wage plan can justly be called an incentive if the workers cannot calculate their earnings under it, nor is it an incentive if the administration of it leads to dissensions and misunderstandings.

Results of Operating with Day Rates

With two years of operation the experience is that direct labor efficiency has not decreased and in some cases an actual increase has resulted. The shops are divided into sequential groups as formerly and time standards set by time studies. The actual hours worked are taken from the workers' clock cards and the efficiency calculated as before mentioned. This comparison is made daily. Workers not maintaining the established pace are transferred to other work. This control of time insures the control of costs. The model price is set upon cost computations before the car is manufactured. For this purpose the time-study department furnishes the time for each operation in a group, which may be done simply if there is little or no change in the part to go into the new model. The average rate to be paid in the group is established and this, multiplied by the time, gives the direct labor cost. Practice at this point varies somewhat. In some cases the time multiplied by the maximum rate for each classification of labor in the department or group is established as the standard cost, the cost upon which prices for the product are based. As measured day rates are administered, a check is maintained both on the efficiency of each group and on the average rate in the department. If the actual hours are equal to or less than the standard hours and the average actual hourly rate is less than that established by time study, no question is raised to rate increases of the foremen.

Curiously enough this method affords a more precise control than was secured under the group piece-rate plan which was limited to calculating efficiencies at weekly pay periods by a comparison of earned rates with the rates set by the time-study department.

It may be stated then without reservation that the efficiency of productive labor and hence costs are precisely controlled under the day-work plan. Furthermore this is accomplished without additional time-study

men, and with about the same clerical effort. The saving in payroll computations is approximately equivalent to the increase in cost department work due to the necessity of calculating average group rates in establishing part costs.

Allowances are still necessary at the start of a new model, but these are now in time and not money. The difference between actual hours and standard hours when multiplied by the average departmental or group rate is an overhead account and is charged against the foreman concerned. The argument that a bonus reward would lead the group to seek and discover short cuts for the sake of the increased earnings to be secured has in these two years been discovered not to be valid. The time required to raise output to normal is actually less under day rates than under the group incentive plans, and the allowances consequently less.

It is pointed out by some managers that no increase in supervision is required under day rates where conveyorized equipment is used. It is true, however, that within the last two years there has been a marked increase in the attention paid to foremanship training. As a matter of fact, due to the increased burden thrown upon supervision, some foremen have been found wanting. Allowances, it has just been mentioned, are charged against the foreman. He must be more alert to evaluate the performance of each of his men, to know the amount of scrap produced and to reward capable workers by shifting them to higher paying classifications of work, by rate increases, or both. Moreover he must keep the men busy by shifting them from job to job in case of breakdown of equipment or other production difficulties, since all of these things affect the efficiency of his group and hence his own value to his organization. He can no longer rely upon the assumption that self interest will lead his men to extract themselves from difficulties, but must adjust these matters himself or quickly enlist the aid of functional people such as time-study men or tool designers, lest the trouble show up in his departmental efficiency.

Changes in rates, justified by real changes in the job, such for example as the introduction of improved equipment, do not have to be explained. If it is

decided that less work is required on a part, that certain operations can be eliminated or combined with others, the change may be made without throwing management on the defensive in explaining that the move is not a cut in rates. The change is made and the surplus of workers transferred to other tasks. Moreover the troublesome pay shortage claims are no longer a bugbear to management. The worker can calculate his pay,—so many hours worked, times his rate, gives the answer. The worker takes home a constant pay envelope where formerly it was low at the start of the model, reached a fairly although not entirely constant level during normal output, and then toward the end of the model became erratic again due to the necessity for balancing the production schedule.

It has been easy for outside interests to pick upon group incentives as evidence of unfair treatment of workers by management, and use this as a means of agitation. This was unquestionably an important factor in inducing the change to day rates two years ago. Now such an opening no longer exists.

An attempt has been made to state the important factors in automobile assembly work which are significant in the consideration of a wage payment plan. It must be realized that what will fit one particular set of operating situations will not necessarily fit another and different set; for evaluations must always be made in terms of specific conditions. Other industries with different operating problems may or may not find the experience of the automotive assembly industry illuminating. However, cursory examination indicates that the move away from incentives is not being generally followed. A careful examination of the actual operation of the group incentive plan leads to the belief that workers' objections, in part certainly, were due to maladministration rather than incorrect theory and it requires some stretching of the imagination to assume that the same alert supervision was not to be had under group incentives as is the experience under day rates. Undoubtedly more important than the specific mechanism used in paying, is management's reputation among its workers for just and fair treatment, and in its providing them with competent supervision.

Suggestions for a New System of Wage Payment

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EVERY system of wage payment, as far as we know, has had certain disadvantages which seemed to be inherent in its nature. These disadvantages fall naturally into one of two general classes, accordingly as the system in which they appear is based on the theory of a time-rate or on one of the variants of the piece-rate idea. Payment by the hour avoids almost all of the disadvantages of payment by the piece, and vice versa.

Thus, the major complaint against the time rate is that it fails to provide an adequate incentive to efficiency. The relation of efficiency to reward is not, in practice, usually either clear or certain, and the mind of the worker is likely to be on the time of day rather than on the rate of production.

To cure this fault, a number of systems have been developed under which pay is *automatically* adjusted to individual performance. A certain output is set up as a standard day's work for a man. Then each employee's wage is computed according to the number of units of output by which he exceeds or falls short of the standard. Alternatively, a standard time may be set for each task, and a bonus equal in value to a certain percentage of the time saved may be given the worker. Again, payment may be by the piece, with a high piece rate for those who exceed the standard and a lower rate for those who fall short.

In all of these systems, wages are supposed to depend directly upon the performance of the individual worker during the time for which the wages are paid. In this way, plenty of incentive to efficiency has been supplied the worker. However, new handicaps have appeared, and these partially offset this advantage. For one thing, when the system is first put into operation, the employer is faced with the difficult and very important problem of what the new piece rate shall be. The obvious solution is to determine how many "pieces" constitute a fair day's output for a man, and then to divide the prevailing wage per day by this figure. This

New proposals for solving the problem of how much to pay the worker are always of interest. We present here for the consideration and discussion of members a plan to combine the advantages of time payment and piece rates which proposes to do away with their respective disadvantages.

assumes, of course, that the employer cannot find men of the caliber required who are willing to work for less than the prevailing wage, and that he can find plenty of such men who do not demand more than this wage. Of more immediate importance, our "solution" also assumes that we know or

can find out what a "fair day's work" is.

Three possible ways of finding out appear at once. We may take the judgment of the foreman on the matter. Alternatively, we may record each operative's actual performance over a period of some length, and thus determine the average individual's output per day. Or, finally, we may time each of the operations which the worker executes, and calculate from this figure how many such operations he should be able to perform in a day.

A foreman's opinion, even if given honestly, is almost certain to be inexact. Therefore, this method has largely been abandoned. If the size of a fair day's output is determined in either of the other ways, two things are likely to happen to falsify the results. In the first place, increased incentive to fast work, under a newly installed piece-rate system, may well increase each worker's daily output to an unpredictable extent. In the second place, a worker who knows his performance is being measured to provide a standard has every reason to work slowly and thus insure that this standard will be a low one.

In either case, the result will be the same: the employer will find himself paying much higher wages than he had originally intended, and will be forced to lower the piece rate. His labor force will make no secret of their reaction to this last step; distrust and resentment on their part seem to be the inevitable consequences.

The time-study method of setting the standard is open to another objection. Unless it is very extensively used before any conclusions are drawn, it is impossible to make accurate allowance for such things as break-

downs and minor accidents. Moreover, there is considerable danger that some infrequent but necessary operation will not be taken into account. These things, of course, contribute to inaccuracy in the standard as finally fixed. If the inaccuracy makes the standard lower than is proper, the consequences will be as we have seen above; if higher, the resentment of the workers involved will display itself even more promptly.

So much for the difficulty of setting a standard in the first place. A second sort of problem arises from the fact that, even if this standard in general is fair, certain jobs in the plant will almost certainly carry higher pay than do others of equal value to the employer. The men assigned to the work on which the rate is relatively low will naturally be dissatisfied, and may come to believe that they are the victims of deliberate discrimination. All this discontent makes for reduced efficiency. In addition, it smooths the way for union organizers and professional labor agitators.

A third disadvantage of a piece-rate system is that organized labor generally views it with disfavor, and will be very unlikely to co-operate to the full to make any such system a success.

Now, if some plan could be found which combined the respective advantages of payment by the hour and payment by the piece—which eliminated the disadvantages of each type of system—the result would be a contribution of some importance to scientific management.

As a guide in considering suggestions, let us glance again at the advantages and disadvantages which have been mentioned. The time rate, simpler and probably involving less friction, is often unsatisfactory as an incentive to efficient work, effort and reward not being correlated. Installation of a piece-work system, on the other hand, involves the determining of a standard performance, which is usually done through time studies. These are expected to indicate the speed at which the men may be expected to work under the newly introduced system. In order that these tests may be truly representative, they must be conducted under physical and psychological conditions approximating those which will exist under the piece-rate plan which is to be used. We have seen the difficulty of making sure that all necessary operations are allowed for in the studies, and that no task is allotted a time which makes the pay for it out of line with that set for other tasks. We have seen also that it is to the worker's interest to work slowly when his performance is being timed as a test, and fast when the piece-rate

system is actually in operation. This fact seems to make it almost impossible to make the psychological conditions of test and post-installation work similar.

What, then, should be the characteristics of a plan of wage payment which seeks to avoid these disadvantages? First, reward should be proportional to efficiency. Second, any standard used should be set under conditions like those under which it will be used. Third, the standard must therefore be somewhat flexible, so that it can be changed from time to time as business and labor conditions change.

Although it will be obvious that the suggestions presented below need not be adopted as a group, they are stated in the form of a complete plan of wage payment. They could be applied to modify or replace either piece- or time-rate systems, but it is assumed, for the sake of simplicity, that the employer who adopts them has been paying wages by the hour. It is further assumed that the processes of production are capable of being organized or divided into homogeneous units (referred to here as "operation-units") of not more than a small number of different types.

The first step in putting the new "system" into effect is to let it be known that individual wages will be readjusted, on an *hourly* basis, in accordance with each worker's performance during a trial period of a month. The length of the trial period may, of course, be adjusted according to conditions in the particular plant. It should, however, be of some definite length. This plan will be announced as an opportunity for each employee to show that he deserves a raise—or a cut.

During the trial month, records will be kept from which may be calculated the average cost to the employer, in payments to operatives, of an operation-unit of each type. In addition, it will be necessary to record the total number of units of each type performed during the period by each worker.

To illustrate, let us take a simplified example. In a certain department of this shop, all the men are engaged on a single operation. In four weeks, this operation is performed 10,000 times. The payroll for the department (exclusive of foremen and superintendent or inspector) for the same period is \$10,000. This employer, then, is paying \$1 plus cost of supervision for each operation-unit. This figure, we will suppose, is satisfactory to him.

Now for the promised readjustment of individual wages. John Jones, in this department, has a record of 120 operation-units for the month. Peter Simpson has done 150, and Robert Tyler 110. For the future,

then, Jones will receive \$120 for a month of equal length in working hours, Simpson \$150, and Tyler \$110.

Naturally, the rate allowed a worker for each operation-unit performed during the trial period can be changed to a certain extent, according to the employer's judgment as to what he can afford and what the men will take. This is an element of flexibility which may be a decided advantage. A basis for the wage to be paid each man is determined empirically *before* the employer commits himself as to the rate which will in fact be paid.

It is obvious, however, that the wage cost per unit of output will tend to rise, once the stimulus to the workers to increase production is removed. This fact brings us to our second suggestion. Instead of letting the new wage take effect as for an indefinite period, set it for a fixed term of months. And announce that *individual performance over this term will determine another wage adjustment at the end of the period.*

No matter what the worker may accomplish during this second test period, his rate of pay will be that fixed by his performance during the first trial month. In this connection, we may mention two possibilities. First, the wage so set may be very low. It will be desirable, especially in a union shop, to guarantee at least a minimum wage to every man employed. Consequently, there arises the problem of the employee who did not show ability to earn this minimum wage. Secondly, a man who during the first trial month did satisfactory work may begin to slack off as soon as the first wage changes go into effect. To handle either of these cases, a competent personnel office will be necessary. If it is the verdict of this office that an employee cannot be induced to turn out a satisfactory amount or quality of work, then the discharge of the offending workman is the only solution to the problem. Whenever a man seems to be having difficulty either in keeping up to the standard of performance which he has himself set, or in keeping his output up high enough to earn the minimum wage, the matter is one for the personnel office. It may be remarked that these same problems may be expected to arise under any system of wage payment.

The implications of our second suggestion will now have become clear. The year is to be divided into periods of one, two, or three months. Each such period is to be a testing time to determine the wage of the individual worker for the following period. Hourly

wages are paid, but each man's hourly pay will depend on his measured output during the previous period. The method of computation is that illustrated above: to multiply the number of operation-units which the worker has performed, by the value set on each such unit. This value will be that given by the results of the first test period, but adjusted upward or downward from time to time to meet changing business or labor conditions. When, at the end of a period, it is time to set wages for the following term, each man's output for the whole past period is thus evaluated. This figure, divided by the number of hours spent in producing that output, gives the new hourly wage.

This suggested method of wage payment differs from conventional piece-rate systems in several ways. First, it is more flexible. Where a fixed or graduated rate per operation-unit, or bonus per minute saved, is paid, the exact method of computing weekly wages is understood by the worker. He, not unnaturally, comes to feel a vested interest in that particular rate and method of computation. Consequently, any reduction is immediately noticed and resented as "unfair." The heart of the difficulty lies in the fact that the employer is formally paying wages by the piece. If, instead, he pays an hourly wage, no one can contest his fairness if he uses individual hour-output records as a guide in fixing that wage. This is the essence of our first suggestion.

Again, we have already seen the complications involved in the introduction of a piece-rate system. A standard day's work must be determined, and this standard must bear some fixed relation to the average day's work. If this relation turns out to be different from what the employer anticipated, or if it varies widely from time to time, trouble follows. In order that the relation between average and standard outputs remain constant, the latter must vary if the former does. Moreover, the average must vary as little as possible. Neither of these requisites is adequately provided for by most methods of setting a standard. The logical answer to the first would seem to be automatically to adjust the standard to the average at fairly frequent intervals, as we have suggested. The second requirement, that the average should vary as little as possible, is more difficult of solution. However, a flexible incentive, adjusted promptly to changing circumstances in the labor market, would seem to be a stabilizing influence.

Finally, the suggested system would set a separate

standard for each individual, proportioned to the individual's capacities as these develop.

Such a wage system, used in conjunction with a guaranteed minimum wage and an efficient personnel office, would as far as we can tell have all the advantages of a time-rate plan plus the incentive provided by piece rates.

A word more as to this matter of incentive. It is possible that this may be weakened by the fact that pay is on an hourly basis and that the adjustment of rate to performance is postponed. However, there is some reason for believing the contrary. Under an ordinary piece-work system, the workman has little chance to adapt his general standard of living to the maximum pay received, because he receives this maximum rate rather infrequently and then only for a short time. Assured of a fixed wage for a period of months, on the other hand, he is very likely to become accustomed to this rate, and will be correspondingly more unwilling to let a decrease in output reduce his income.

In closing, we would call attention to the following features of the suggestions which have been made above:

1. The standard day's work is empirically determined, with all factors taken into account, before any commitment is made as to future wages. Moreover, the standard is determined under the same psychological conditions which will exist after it is in use, for in each case future pay depends on present performance. Thus an important source of error is eliminated.

2. Once the plan is in operation, each man's past record will be his own standard, corrected for any change in business or labor conditions. Improvement will be rewarded, as lessened output will be penalized, by a semi-automatic change in the hourly wage.

3. Except at the volition of the employer, the wage cost per operation-unit will not change. If efficiency increases, he may increase the hourly wage to whatever extent circumstances warrant. If efficiency declines, his right to reduce the wage is clear and unquestionable.

4. The fact that the individual's rate of pay depends on performance over a considerable period of time will allow the various mischances of the shop to average out, thus eliminating resentment and friction due to a worker's temporary ill-luck.

5. As a time-rate system with a guaranteed minimum wage, this plan should be acceptable to organized labor.

Discussion

Charles W. Lytle.¹ The author of this proposed plan of periodically adjusted time rates is a good writer. He takes but two of the established plans, time rate and piece rate, strips them at vital points, wholly condemns them and then sets up his virgin plan in faultless attire. But the faults of the old plans are not so insurmountable, nor the virtues of the new plan so sure as an innocent reader might suppose.

First: Whatever tendency there may be for a workman to stall during a "time study" the accomplishment is not so subtle nor so baffling as to prevent a good analyst from getting at the truth.

Second: When an analyst is green, or his method crude and his standard too easy, it neither follows that the management is "forced to lower the piece rate" that was "originally intended" nor that an unintended rate cannot be safely corrected.

Third: The difficulty of allowing for events that did not happen during the study and the possibility of conditions being altered after the study is not too serious under a good management, nor is it necessarily obviated by the proposed plan.

Fourth: As to the danger of differentials between jobs "of equal value to the employer," such danger is far greater under the proposed plan because no analysis is made of work elements. Everything is left to the worker's own resource.

In short, the writer seems to have spent his worry entirely on the psychological aspects and has undervalued the industrial engineering resource now available. We do not mean to reverse this one sided appraisal, but we still believe that the psychological interests can be best met by using many of the old plans, properly installed by motion minded engineers and then properly operated by human minded foremen, personnel staff, etc. Any one new plan for general adoption has always been disappointing and there is little in this proposal to make us think it might prove an exception to that experience. Where conditions have necessitated time rates the periodical adjustment feature has always been helpful, but never a cure-all.

David B. Porter.² I subscribe to what Professor Lytle says in his remarks and wish to emphasize particularly that no wage plan has ever been devised which

(Continued on page 172)

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Scarcity Again!

Two Comments

Harold Loeb.¹ Dr. H. L. McCracken in his article "An Appraisal of the Possibility of Plenty," (March, 1936, *Journal*), dismissed the findings of the National Survey of Potential Product Capacity on the ground that the concept "scarcity," as used by the N. S. P. P. C., was not the concept of scarcity established by economists after several hundred years of intensive fumbling. The accusation is sound. Still, it might just be that the word, "scarcity," like most of the other words in the dictionary, is subject to more than one "meaning," and economists should be the last to object to alternate "meanings," since in their science nearly every concept—wealth (i.e., physical property and the ownership of physical property), value (i.e., use value and exchange value, not to speak of subjective value), etc., is employed in several ways.

Dr. McCracken says, "There is not a single good with which economists, producers, or consumers concern themselves, but goods of the scarce type. Scarcity is a relative term, not an absolute one. . . . The demand for every economic good is greater than supply, if the price is low enough."

Although scarcity, as used by economists, is a relative term and not an absolute one, I beg to differ with the import of Dr. McCracken's statement. Not only producers and consumers but even economists concern themselves with goods of the not scarce or abundant type. May I cite water in New York City as an example. Water has been made abundant in the city limits. Yet it is of considerable concern to the water department, (the producer), to the citizen, (the consumer) and to the economist, who, in attempting to measure the value of New York water would of necessity have to resort to use value—to that combination of manual, mental and managerial skill necessary to provide the water, since scarcity or exchange value does not apply to a free good or to a good made abundant by the ingenuity of man. In sum, I doubt that the demand for water would increase appreciably even though the New York City water tax should be reduced.

Dr. McCracken seemingly still clings to an old economic belief, exploded I thought definitely by Menger in 1871, although Gossen, Jevons and others had attacked the problem previously. This belief is, that wants are unlimited. Otherwise, what does Dr. McCracken mean by saying that the demand for every economic good is greater than the supply, if the price is low enough?

Menger pointed out that this erroneous concept is due to the failure to distinguish kind, time and place. All kinds of wants taken as a whole may be unlimited, but the quantity wanted of a particular kind here and now is a limited quantity.²

The National Survey in previewing the problem of product capacity was impressed by two difficulties:

1. Seemingly a supply of most commodities can be provided in the desired quantities for a given geographical territory if manual, mental, and managerial skill should be concentrated on providing that commodity in the desired or requisite quantities.
2. Capacity operation of many industries would not be de-

sirable due to the fact that desire for a commodity diminishes with an increase of the supply, and by capacity operation a supply of many commodities would be provided so amply that a further reduction in price would not increase the demand. (The principle of diminishing returns.) For example, more flour could be ground by our mills than was ground in 1929. Yet in 1929 the people of this country consumed more bread than they would have consumed if they had had an adequate supply of meat, fruit and vegetables. Consequently, the unused capacity of our flour mills is an excess capacity rather than a potential utility.³ Therefore the N. S. P. P. C. discarded the obvious method of determining product capacity—a method which might be described as the engineer's method since it is concerned only with "efficiency"—i.e., input of man-hours, output of commodities—and devised a novel method which might be described as an economist's method since demand or wants was taken into account.

To do this it had to make a distinction between goods which can possibly be provided in the requisite quantities for a given geographical territory living under a certain culture or civilization which pretty definitely sets the customary needs and psychological wants, and goods which cannot possibly be provided in the requisite quantities.

The difficulty in making this distinction does not lie entirely in the lack of information (budget studies indicate "wants" pretty accurately and averages of wants are presumably as accurate as averages of deaths, let us say) but in the necessity of considering all needs and wants together. For example, bread production would exceed the desired norm even now if other foodstuffs should be supplied in greater quantities; or again, tennis courts are insufficient to supply the potential demand, but they would be much less insufficient if the supply of golf courses, riding horses and other possible day time, outdoor, recreational facilities were increased, since time is finite in respect to the individual.

In order to distinguish those goods customarily desired in the United States at the present time by the existing population living according to their usual "mores" which might be provided in the requisite quantities, (goods of a certain kind, time and place), from those goods which cannot be provided in the requisite quantities, the N. S. P. P. C. employed the words "potentially abundant" and "intrinsically scarce." It is not the customary usage of the economist since, as Dr. McCracken points out, a condition is described and not a relation, but on the other hand this usage is quite in accord with "common sense" or the usage of the man in the street and the distinction had to be made in order to proceed with the research.

The supply of most mass product goods, or goods susceptible to automatic production by inanimate energy, is susceptible to nearly indefinite increase: on the other hand handicraft products, styled articles, a few natural objects which cannot yet be reproduced perfectly by man, original works of art, natural

¹ Director of the National Survey of Potential Product Capacity, New York.

² Grundratze der Volkswirtschaftslehre. Carl Menger, 1871.

³ The limited scope of this article forbids the consideration here of foreign trade. To make the argument complete the impossibility of shipping surplus products abroad for non-existent gold or unwanted commodities should be indicated.

features, and certain branches of human service, particularly the menial, are not susceptible to indefinite increase. In fact certain commodities, domestic service for example, would tend to decrease if the supply of other commodities increased.

Having distinguished these two kinds of goods, two further operations were necessary before investigating product capacity:

1. The estimation of the wants of the population for potentially plentiful goods.
2. The estimation of the actual production and consumption of the population of intrinsically scarce goods in 1929, the year studied.

The two estimates, added together, were called the budget. Our research consisted in checking through the nation's natural resources, existing equipment and customary labor force in order to discover if this budget could be provided and how soon, assuming that society should decide to utilize its productive facilities in order to supply its needs and wants.

Dr. McCracken evaded the consideration of both the method and findings of the National Survey unless his statement that "this book"—The Chart of Plenty—"only reveals how extremely foolish great engineers can appear" may be termed an evaluation. In any case his adjectives were ill chosen since my associates, "the great engineers," had little to do with the phase of the work which Dr. McCracken criticized, and I personally do not presume either to greatness or to engineering.

But the point at issue is this: economists have a responsibility. Up to the last hundred years or so they automatically assumed it. Aquinas, Locke, Smith, Hume, Quesnay, Ricardo, etc., scrutinized the working of society's economy and considered whether or not it produced wealth efficiently. Latterly, in imitation no doubt of the physical scientists who are compelled by the nature of things to exclude "purpose" from their research, the economists by and large concentrate so intensely on how our system works that they seldom, in academic circles, at least, find time to ask if it does work. The system, in so far as it distributes and fails to distribute wealth, would seem to have been given some holy sanction. God, sometimes, called nature, or law, is supposed to have handed us the principle of supply and demand. What matter if the principle does not function as it is supposed to? What matter if the principle of supply and demand plus self interest does not effect an optimum production of wealth? Who would be so impious as to question a holy law?

And when someone dares question it, instead of devoting a little thought to the issues raised, the matter is dismissed in an Olympian manner with a tendentious phrase—called in boxing circles, a blow beneath the belt. For example, Dr. McCracken stated, "yet their plan necessitates the creation of a Board of Administration with absolute power not surpassed by Mussolinean Fascism?" How come?

Most cities have decided to accept the potential abundance of water. Presumably therefore the water authorities out-Hitler Mussolini, since the very life of large communities depends on the water supply. The above criticism is plain nonsense. "Rationing," the economists' invidious term for describing the planned distribution of a commodity, curtails freedom *only* when the *good rationed is scarce*. It does not in any sense curtail freedom when the good is supplied in the requisite or desired quantities. On the contrary the citizens of New York have been freed pretty largely from concern over water by its

removal from the domain of private enterprise. The findings of the National Survey seem to indicate that it is not only water, roads, and very elementary education which can be supplied by our society in the requisite quantities. They seem to indicate that basic foodstuffs, a quota of mass production clothing, a room and a half per person, medical care, movie seats and other goods and services could also be supplied in the requisite quantities.

To argue that water is of only one kind, and that other commodities may take various forms, is only specious. Both water and shoes, for example, are subject to variation. Society supplies only one kind of water. Society could supply twenty-seven varieties of shoes, let us say, in all the different sizes. Neither provisioning need prevent individuals from producing and consuming Poland water, White Rock and Vichy or custom-made and styled shoes, by necessity in limited quantities. The point is that an abundant supply of one kind of water and an abundant supply of a variety of shoes could be provided in the desired quantities.

If the findings of the Survey are accurate, the matter is of some importance. Neither the man in the street nor the average business man has the conditioning necessary to evaluate the method and findings of the Survey. It would seem as if society would be better served by its economists if they confined their theology to Sunday mornings, and opened their minds to the consideration of ideas even when they appear in an unfamiliar form.

Harold M. Davis.⁴ In his review of the Brookings' study, Professor McCracken failed, just as I think Brookings failed, to distinguish clearly between the two basic problems involved. To recognize these problems and their interrelationships is to see in an entirely different light the various remedies discussed by Brookings and Professor McCracken. I think the following summary is a more correct statement than Professor McCracken's of the failures and successes of the Brookings' study.

The four-volume Brookings' study is a combination of (1) diagnosis of economic disease, based on statistical analyses that seem adequate, and (2) suggested remedies based only on thoughtful guesses that seem wrong.

Capacity to produce and consume, capital formation and unbalanced division of income into savings and consumption are on solid foundations.

Then come four thoughtful guesses on two basic problems: (1) taxation and (2) wage increases, both deemed inadequate to solve the first problem—unbalanced income; (3) low-cost-and-price mass production attributed supreme importance in solving the second problem—increased income. By implication the unbalanced-income problem is ranked first till near the end of the study; but in a great hiatus it is sunk without trace, thus implying a guess (4) that there is no necessary sequence between the two problems and that initial action is possible on the second.

Taxation: Brookings argues that the fifteen billion dollars of excess 1929 savings cannot be redistributed via taxation and government spending because of the difficulty of finding spending projects. But why is there no study of the entire tax structure to test the possibility of sluicing excess savings into ordinary governmental costs which run ten to fifteen billion dollars per year?

⁴ Industrial Engineer, Nashua, New Hampshire.

Wages: Brookings argues that raising wages will not adequately redistribute income partly because unorganized workers, farmers and other groups cannot be included, and partly because wages are so important an element in costs that competitive business cannot manage increases. Why is there no study of the little-understood circulation of consumer spendings, especially if taxation and wage increases sop up excess savings? And why is there no study of the wage system to test the effectiveness of Brookings' own suggestion that increases be paid as a quarterly or annual bonus from the fund now used exclusively for profits, thus leaving costs undisturbed?

Price Policy: It is flat anticlimax to leave unique ideas incomplete in order to expound the established mass-production principle. Not many resist the principle; most business men do resist the practice. Why no study to determine if resistance is the free choice implied by Brookings' recommendation to stop it or the necessary consequence of unbalanced income?

Sequence: Initial action on price policy with no action on unbalanced income heads into worse depressions. Brookings' explanation of the larger profits likely in mass production is true, but amazingly complacent, in view of their own findings that the proportion of income saved is already excessive. And W. H. Lough reported to the Taylor Society in 1931 that increase in consumer-goods is largely an increase in "caprice" goods that can be cut off so completely and so quickly that depressions are deepened. Why is there no study of sequence?

Almost to the end it is a brilliant study. Brookings is close to a compensating adjustment that may restore much of what Salter called "the miraculous self-adjusting quality of our competitive system." At the end Brookings hides the wheat in chaff; witness the unanimity with which Walter Lippmann and business-men commentators on the *Fortune* article approve the familiar mass-production principle and skip the unfamiliar ideas on unbalanced income.

Important to complete technical studies, the main point is the human emotions involved; how does the slice of 1929 income to be taken from wealthy over-savers compare with depression losses of those same people? By a lucky chance, to give reality to a 125 to 150 billion dollar national income, have we only to transfer perhaps ten billion dollars of paper profits that never existed in reality for anybody,—ghost money, so to speak?

(Continued from page 169)

is satisfactory to both employer and employe without a foundation of adequate operation standards. The author seems to feel that it is difficult to get correct job standards and seems to think that his wage plan will operate satisfactorily without this. I admit that accurate job standards may be difficult to obtain, but that of course is no reason why management should shrink from the obligation and expense of determining fair standards of work. This has never been done and never will be done by leaving it entirely to the worker's initiative. The determination of correct methods of work involves an analysis of work elements and their

proper synthesis into methods of least work, which can only be determined by an enlightened management working through a competent technical staff.

I agree that Mr. Osborne's periodical/adjusted time rate plan has many merits and in some cases may work more satisfactorily than piece work, but only when the operations have been accurately standardized.

REVIEW

Savings Plans and Credit Unions in Industry. By F. Beatrice Brower, National Industrial Conference Board, Inc. New York City, 1936, pages ix, 72. (\$1.00.)

Enlightened employment policy embraces plans for stimulating employe thrift. By providing machinery in the plant for mobilizing the savings of wage earners, such plans encourage the socially desirable traits of individual thrift and initiative.

However, depression experience has uncovered weaknesses in some of the earlier forms of employer aid in the money problems of the workers.

Stock ownership plans are unsatisfactory for the lower income groups who need above all safety of principal. Contributory pension and group insurance arrangements, and social security laws, have longtime value. They look forward to the day when the employe retires because of age, but they are not helpful in current emergencies. Company approved savings plans may range from informal co-operation with savings banks to complex contractual arrangements for the mutual building up of workers' thrift accounts. Care must be exercised lest they encourage employes to undertake too much or to seek investments with too large a risk.

Credit unions maintain the mutual interest of management and employe in thrift, but they also supply cash credit in small amounts. As a source of low cost funds in time of need, they can relieve the employer of the annoyance of garnishments in efforts to collect on wage assignments. For these reasons, employers are showing a preference for credit unions.

This study compares thrift plans in operation among several hundred concerns in 1927 and 1936. It reveals a decided shift from other forms of employe thrift to the co-operative form of the credit union. Only one-fourth to one-third of the other forms of thrift arrangements persisted during the decade studied as against three-fourths of the credit unions. The success of credit unions in these plants has been substantial; mortalities have been few and losses small.

This study covers less than two hundred credit unions. Most of them are of recent origin. Only a fourth of the number were established prior to 1931. A wider study than the present one reveals many failures among credit unions for various reasons.

Although they are co-operative enterprises of workers, credit unions impose a certain amount of inescapable responsibility on the host company. Success depends on conditions within the plant and on the type of men who are chosen as directors.

By M. R. NEIFELD, Statistician, Beneficial Management Corporation, Newark, N. J.

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THE SOCIETY FOR THE ADVANCEMENT OF NEWS MANAGEMENT BULLETIN



MISCELLANEOUS EDITION

OUTLOOK ON GOVERNMENT
CHAPTER NOTES AND PROGRAMS
HOW TO MANAGE
SUGGESTIONS

JOHN F. CAMPBELL, EDITOR

Engineering Department
Manhattan Rubber Company
Passaic, N. J.

FEBRUARY 1936

Vol. I, No. 1

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THE SOCIETY FOR THE ADVANCEMENT OF MANAGEMENT

NEWS BULLETIN

PUBLISHED BY THE SOCIETY FOR THE ADVANCEMENT OF MANAGEMENT, INC.
ENGINEERING SOCIETIES BUILDING
29 WEST THIRTY-NINTH ST., NEW YORK

COMMENT

Greetings to the various Chapters and members of the Taylor Society and of The Society of Industrial Engineers, who form the nucleus of our new national body known and chartered as THE SOCIETY FOR THE ADVANCEMENT OF MANAGEMENT.

To the fine men who were honored officers of the individual Societies, and to the present officers and directors of the new Society, we all owe a debt of thanks for our strong, new, central organization which, with our combined and sincere efforts will become synonymous with the words Management and Engineering in their fullest meaning. Time and work mean nothing to such men, but through our efforts, we may lighten their burden.

It is sincerely hoped by your National Officers that the JOURNAL and NEWS BULLETIN will, with other services, be the means of bringing about an inter-chapter fraternal spirit--a more closely knit society--than has heretofore been enjoyed. To this end, the individual members as well as Chapter groups are asked to co-operate.

This paper cannot long exist without subject matter to fill its pages. In the hands of you Chapter officers and members therefore, its fate rests. Send us the personal news of your groups, the Chapter activities and programs, new developments, interesting subjects and papers presented before your Chapters; in short, any news of Chapter or individual accomplishment. Suggestions and criticism, too, will be appreciated.

The NEWS BULLETIN and the JOURNAL are yours. Keep them so and use them as vital organs for your own and the common good of our Society and the Management field.

To the end that we may know our brothers and knowing them become united through our National Society for the Advancement of Management into an organization performing great services for Industry, Commerce, Labor et al., this paper is dedicated.

MANAGEMENT TECHNIQUES IN GOVERNMENT

BY FRANCIS GOODELL

There is an aspect in the relations of business to government which impresses me very forcibly after a few months in an emergency organization here in Washington.

As one tots up the increasing number of people who are directly or indirectly dependent upon government - and studies the trend of government in this and other industrial countries - it is obvious that government will be forced to operate institutions affecting unprecedentedly huge numbers, notwithstanding all the complexities of democratic control. Whether the transition to whatever is coming next is tolerably smooth or not is perhaps more dependent upon progress of management techniques in government enterprises.

Though considerable progress in management techniques has been made in governmental enterprises, it is probable that it is indebted to industry to a large extent for this progress. But much of the improved technique is rendered ineffective because the management and organization specialists have to so small a degree been called upon to work out the qualifications needed for chief executives and for directors of large and complicated enterprises. Top executives in industry have authorized job analyses of subordinates and tests of their effectiveness but it has commonly gone without saying that the "big shots" were above measurement and above reproach. While this is perfectly natural in private industry, - governmental administration suffers from the lack of just this technique.

In a short paper I cannot stress the implications of this need, yet I am convinced that the effectiveness of democracy is closely related to its capacity to judge its elected leaders. I am myself acquainted with little that has been written on this point but believe it is almost self-evident.

In regard to the qualifications of heads of large enterprises H. Fayol in his "Administration - Industrielle et Generale" works out in a convincing study some pertinent figures. He claims that the head of a state should be concerned sixty per cent. with matters which are purely administrative in nature - and defines "administrative" to foresee, organize, order, co-ordinate, and control. (My translation). He states that they are therefore only forty per cent. concerned with the other five aspects - "technical, commercial, financial, security of personnel and goods, and accounting." In other words the head of a large governmental administration needs about seven times as much knowledge of administrative matter as he does of any other particular kind.

I recall that it was thought early in the century that scientific management would help to close the tragic gap between what was known and what was used in the realm of science. It is at least debatable whether that gap is not worse than before. It is my thesis that (1) organization and management have accumulated enough tested doctrine to begin to measure government enterprise in the light of these doctrines; and (2) that what is now holding up progress in efficient management of governmental enterprise is to a considerable extent the need of men with knowledge of these tested doctrines in high places.

CHAPTER PROGRAMS

Note: Only those features still remaining on the current season's programs are printed. Full programs will be printed in later issues for the coming season. Editor.

BOSTON — All meetings are at the Engineers Club, Dinner at 6:30.

Thursday, March 26. The Railroads Go Modern by LAWRENCE RICHARDSON, Engineering Assistant to Vice-President of Operations, Boston and Maine Railroad.

Thursday, April 23. A Labor Leader's Appraisal of Industrial Engineering by ROBERT J. WATT, Secretary-Treasurer, Massachusetts State Federation of Labor.

Thursday, May 28. Plant Operating and Human Engineering by JOHN A. GARVEY, Assistant Works Manager, Dennison Manufacturing Company.

PHILADELPHIA — All meetings will be held at the University of Pennsylvania Christian Association Building, N. W. Corner 36th and Locust Streets, at 7:45 P. M., unless otherwise noted.

Wednesday, February 26. Production and Planning Control Section. Materials Control (Continued) by JOHN G. PEHLERT, Industrial Engineer, Philco Radio and Television Company. This meeting is planned as a continuation of the January meeting at which the subject discussed proved to be too large and of too great interest to be thoroughly covered in one session.

Thursday, February 27. Retail Store Operating Section. Stock Control in Retail Store Operation by ALFRED C. THOMPSON, Research Director, Strawbridge & Clothier and Lecturer in Marketing at Villanova College.

NORTHERN NEW JERSEY — All meetings will be held in The Club Room in the Hotel Douglas, 45 Hill Street, Newark, N. J. Dinner at 6:30 P. M. \$1.00 for members. \$1.25 for others.

Thursday, March 12. Production -- Control in Stock Distribution by WILLIAM F. TREMEL, Westinghouse Lamp Co., Bloomfield, N. J.

Thursday, April 9. Industrial Relations by ORDWAY TEAD, Associate Editor, Harper & Brothers, author of several text books and numerous articles on Industrial Psychology and Human Relations.

Thursday, May 14. Business Forecasting for Budget Purposes by G. W. STIDSTONE, Treasurer, Bigelow, Kent & Willard, Inc.

Saturday, May 23. May Ladies' Night -- Dinner and Dance.

NEW YORK

Meetings are being planned for the third Wednesday of each month. Speakers and Subjects will be announced.

CHAPTER NOTES

BOSTON REPORTS:

Meetings averaging an attendance of forty to fifty during 1934 and 1935.

Arranging a series of informal discussions on topics such as "Factory Maintenance," "Production Control," and "Time and Motion Study." Groups to number four or five. Each group to include ten to fifteen members and to be conducted by one of the Chapter Directors.

Having a well known Labor Leader appraise Industrial Engineering from Labor's point of view. (See Program).

NORTHERN NEW JERSEY SAYS:

Exceptionally well attended meetings this season.

A "Motion and Time Study" course is in the making. Information may be secured by writing Chapter Officers or your Editor.

A fine spirit of co-operation is noted in favor of our National Society, The SAM.

They will enjoy having the closer Inter-chapter relations now made possible.

D. M. Heider has been made Service Superintendent of the DuPont Viscoloid Company at Arlington, N. J. Congratulations!

Chapter members will be glad to hear that our good friend, I. C. Newbury is recovering from a severe accident.

PHILADELPHIA ADVISES:

Fine attendance at meetings presenting fine speakers.

NEW YORK INFORMS:

New officers have been elected to guide the destinies of the newly formed New York Chapter of the SAM, which embraces the Metropolitan Group of The Taylor Society and The New York Chapter of the SIE. KEEP YOUR EYES ON THIS CHAPTER.

WASHINGTON TELLS US:

Active organization is now under way. Four Spring meetings are planned.

Other Chapters and Student Branches had not reported items for this issue.

NOTICE

Copies of preferred practice on TIME SERIES CHARTS, prepared by a joint committee of various national engineering societies under sponsorship of the A.S.M.E., and the procedure of the American Standards Association, are now available and may be purchased at \$1.00 each, through this office.

The purpose of this code is to assist in raising the general level of effectiveness in graphic presentation. Present edition limited.

HOW TO MANAGE

COURTESY — W. H. LEFFINGWELL, INC.

1. Define your purpose.

You must know what is to be done before you can know how. This is your master task.

2. Analyze your problem.

Your master task will then break up into many detail tasks. Consider them all -- neglect none.

3. Seek the facts.

Study every condition governing each task, find the undesirable elements to be eliminated, the desirable elements to be retained. Then standardize right conditions.

4. Devise the one best method.

Aim to conserve ENERGY - TIME - SPACE - MATERIAL. Determine relation of details to Master Task.

5. Find the person best fitted.

For each task certain personal qualities are essential. In each person certain qualities predominate. Find the person best fitted.

6. Teach the person best fitted the one best method.

Not by driving, but by thorough patient teaching are understanding and skill developed.

7. Plan Carefully

Right planning of arrangement and sequence of work will enable you to accomplish tasks in LOGICAL ORDER -- ACCURATELY -- ECONOMICALLY.

8. Win Co-operation

Co-operation means working together. It cannot be demanded. It must be won. Accept your share of the responsibility. Respect the rights and aspirations of others.

THIS IS SCIENTIFIC MANAGEMENT.

Following are some suggested topics for inclusion in the News Bulletin.

Your Comment is invited.

1. To conduct a Forum on what Industrialists would like to have the colleges teach students. This would be accomplished by publishing letters of Industrialists to College Professors on what graduate students should know, to be valuable in business. Professors and Industrialists please note.

2. To publish pertinent comments or papers of individuals in the various Professional and Commercial Engineering Concerns.

3. To open one page of our Bulletin for paid Advertising.

Purposes of The Society for the Advancement of Management

The purposes of this Society are, through research, discussion, publication and other appropriate means :

1. To forward the elimination of waste and the development of efficiency through the study and application of scientific principles and methods of management.
2. To bring about a better understanding of the mutual interests of government, management, investors, labor and the public in improved management.
3. To provide means whereby executives, engineers, teachers, public officials and others concerned, who apply scientific methods to management problems, may promote this common interest.
4. To inspire in labor, manager and employer a constant adherence to the highest ethical conception of individual and collective social responsibility.

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|--|----------------|
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| 7. Bureau of Information Service. | Personnel |
| 8. Bureau of Employment Service. | Production |
| 9. A technical Library. | Research |

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The following are the grades and fees of membership:

<i>Resident</i>	<i>Dues</i>	<i>Initiation Fee</i>	<i>Non-Resident</i>	<i>Dues</i>	<i>Initiation Fee</i>
Member	\$12.50	\$5.00	Member	\$5.00	\$2.50
Associate	10.00	5.00	Associate	5.00	2.50
Junior	7.50	5.00	Junior	3.00	2.50
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Student	2.50		(For the minimum of two representatives. \$5.00 for each additional representative.)		
(If in Branches of ten or more.)					
Firm	20.00				
(For the minimum of two representatives. \$10.00 for each additional representative.)					

CHAPTERS

The following chapters and sections of the Taylor Society and of The Society of Industrial Engineers have been reorganized as chapters of The Society for the Advancement of Management:

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<i>Secretary</i>	ANDREW ANDERSON, JR.	<i>Secretary-Treasurer</i>	TERESA ACOPA

The following chapters of The Society of Industrial Engineers are in process of reorganization as chapters of The Society for the Advancement of Management:

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<i>Chicago</i>	<i>District of Columbia</i>	<i>Pittsburgh</i>
<i>Cleveland</i>	<i>Los Angeles</i>	<i>Rochester</i>

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29 West 39th Street
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THE SOCIETY FOR THE ADVANCEMENT OF NEWS MANAGEMENT BULLETIN



COMMENT

MOTION STUDY NOTES

CHAPTER NOTES

PLACEMENT INFORMATION

NEWS TOPICS

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29 West 39th Street
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JUNE 1936

Vol. 1, No. 3

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THE SOCIETY FOR THE ADVANCEMENT OF MANAGEMENT

NEWS BULLETIN

Published By The Society for The Advancement of Management, Inc.
Engineering Societies Building
29 West Thirty-Ninth St., New York, N.Y.

COMMENT

We hope the contents in this issue of your news bulletin will cause a wave of thinking by our entire membership. The news of our extremely successful Eastern Regional Convention under the auspices of the very active Philadelphia Chapter is most important, in that it shows what organized and concerted effort may accomplish. The Philadelphia Chapter is congratulated on its showing and should feel very proud. Northern New Jersey Chapter presents news of closing a successful season, and news from other Chapters is of real interest.

In our placement information service will be found abbreviated records of some distinctly desirable applicants. These records have been investigated, and members and other readers are urged to write Miss Buckley at National Headquarters for additional information, when vacancies are to be filled.

Doctor M. A. Dittmar of the Northern New Jersey Chapter, whom we voted as recovering in our last Bulletin, has since undergone a serious and painful operation. His many friends are now rooting for his speedy and full recovery which seems assured.

No further comment will be made after this issue, on the lack of cooperation from individual chapters in the matter of forwarding material for use in this Bulletin. If Chapter officers, Executive Committees, Directors, etc, are too busy to present material, it is suggested that a good method to make such material available for publication would be for each Chapter to appoint one member to keep National Headquarters informed of activities.

The second officer of our National organization to be presented is Mr. William H. Gesell, Vice President and Director of the Society.

One hardly knows where to begin when describing this man because of his apparently born aptitude for ready application to so many pursuits. Short, sturdily built, middle aged and extremely active, Mr. Gesell in his capacity as Vice President of Lehn and Fink, Incorporated, has an enviable record as an Industrial Leader. One can readily understand after meeting him, why employees in his organization are loyal.

A personality beyond comparison coupled with a real flair for entertaining in the capacity of host, make him at one time the Executive and Friend so rarely met. Too, I suspect from these attributes that Mr. Gesell might well rate as the super-salesman. To some of you reading this, that last sentence should be reminiscent of the period just before our new national organization was formed. Turned loose among the Esquimaux, I'll bet he'd sell them refrigerators.

Mr. Gesell is that active spark so necessary to the success of any venture. With him as Vice President of our National Society there seems to be no need to fear for its successful growth into a dominant organization in the management field. Such growth will be considered ample reward by him for the time, work and other efforts he put forth to that end.

Professor David B. Porter, Secretary and Director is next on my list of "Men We Should Know."

Editor

MOTION STUDY NOTES

By W. R. Mullee, American Hard Rubber Company, Butler, N. J.

A few high lights at the Eastern Regional Convention were: Mr. Van Poppelen's talk on "Over-All Motion Study." He pointed out plenty of work to be done on Process Charts and Lay-Out before management thought of applying motion study to the operator.

Mr. Hartman amazed us with the record of the extent to which mail order firms have adopted motion study. The stamp rack he described looked like something we all could use. Also, the novel way of feeding slips into front of typewriter instead of the conventional way, thereby, combining "Get Ready" and "Clean Up."

Curiously enough, some members found a "Motion Economy" lunch room located a few doors from the convention. By pressing a button corresponding to the menu combination number, the order was flashed to the kitchen. A few minutes later, the order came out on a conveyor belt at counter level. This practically eliminated the waiter's "Get Ready." The return side of the belt carried soiled dishes back below counter level to the kitchen, thereby, eliminating his "Clean Up." The 150 foot length of conveyor made one round trip a minute, by Mr. Kosma's stop watch.

After the One Best Way is determined for a particular job, the next step is teaching the operator. Many of us are using motion pictures for instructional purposes. Most of us are using a written description of the job in addition. Written descriptions, even if broken down into therbligs, are lengthy and sometimes misinterpreted. Mr. Archie Williams has developed a method that for simplicity and effectiveness surpasses others. Photos are taken of the "grasp" therblig. A written description outlines the "transport." Training period for operators on gummed shoes formerly 8 to 9 weeks, has been reduced to 8 days. Mr. Williams' portable camera outfit, with light meter calibrated in diaphragm settings, reduces "Get Ready" and "Clean Up" to a minimum. We can furnish complete data if you are interested.

Motion Study is being emphasized in advertising. One manufacturer presents a one hand method of operating a bench center while positioning the piece with the other hand. A lever depressed by palm of one hand releases the spring center. This should reduce loading time through simultaneous use of both hands. Another firm advertises a safety razor with an attachment to "do what a third hand would do if you had one." Even the humble wood screw has just been improved with a new type head that permits starting and driving with one hand, leaving the other hand free to position the piece, centers the screw automatically and takes half the work out of screw driving, according to the advertisement.

Use of foot pedals on new machines is becoming so commonplace in advertisements that the motion study man can no longer claim parentage. I was surprised recently when a salesman for a cellophane wrapping device quoted production figures on the machine and then other figures if a foot pedal were added.

Data of unusual interest is in a bulletin entitled "An Investigation of Some Hand Motions Used in Factory Work," by Professor Ralph M. Barnes, University of Iowa. Among other material is a comparison of transport by sliding and by carrying. Using a high speed camera for "slow motion," he proves that grasp and slide is twice as fast as grasp and carry. We tried this out on several jobs in the plant with excellent results. If you write for a copy ask for Bulletin #6.

(Editor's Note) Well worth having a copy of this Bulletin.

CHAPTER NOTES

STUDENT BRANCHES

No news has been received of any student activities since our last issue, other than a meeting conducted by the Newark School of Engineering Group, where the National President, Ordway Tead, addressed these young men on "The Human Aspects of the Engineering Job."

CHAPTERS

On May 20th, the New York Chapter held its regular meeting and was fortunate in having as guest speaker, Doctor David B. Steinman of Robinson and Steinman, Consulting Engineers, who spoke on the "Professional Training and Recognition of the Engineer." From attendance figures of this meeting, the New York Chapter is rapidly and actively engaged in showing other Chapters what their new enthusiasm for our National Organization is accomplishing.

Northern New Jersey Chapter reports closing a successful season both numerically and financially, on May 23rd, with its May Ladies Night.

Our Philadelphia Brethren must be near the point of exhaustion after their herculean effort, particularly since they conducted all regular activities scheduled in addition, during the month of April.

Boston, Washington, Chicago, Detroit, Cleveland and other Chapters are reporting real activity and progress. There are in my possession several papers delivered before the Washington and Boston Chapters, excerpts of which will be found elsewhere in this Bulletin at some time.

Indications point so strongly to renewed interest in our now solvent and stable National Society, that we feel certain with the opening of our new season this Fall, all those Chapters and members who in the past few years were somewhat discouraged, will once again be active. It will be pleasant to chronicle the happenings of these groups.

* * * * *

Your editor is happy to report that there is at least one reader of this Bulletin. A letter has been received in answer to the query by Remington Rand in our last issue. In our pride, we print it in full.

April 27, 1936

Miss Evelyn Buckley,
Room 611 29 W. 39
N.Y.C.

Dear Miss Buckley:

Re: News Bulletin Vol.1, No.2 Page 6
Remington Rand, Inc., asks the question:

1. Do you find a tendency to replace older and higher priced workers with younger and cheaper assistants? Why?

Yes. Because workers do not think.

At the age of 25 any intelligent worker should begin to think and visualize himself at the age of 40. He should study and work hard, take advantage of every ounce of experience gained at the expense of his employer and be conservative and thrifty. He should begin to lay plans for the sound structure of his own business.

At the age of 35 he should be ready to start his own business and be independent of the age limit.

Very truly yours,
A YOUNG UPSTART

PLACEMENT INFORMATION SERVICE

Notice is hereby served to potential applicants for a license as Professional Engineer, that the laws of New York State governing this subject, will change on January 1, 1937.

We have a number of calls from various sections of the United States for Time Study men. Salaries range from one hundred and fifty to two hundred and fifty dollars a month. Members interested, please send complete detailed records to Miss Evelyn Buckley, The Society for the Advancement of Management, 29 West 39th Street, New York City.

Members wishing to register for the Placement Information Service may do so by sending five copies of their experience records to Miss Buckley. There is no charge for this service to members in good standing.

APPLICATIONS RECEIVED

1. Young man, 28 years of age, and single, wishes a position in Industrial Management. Education very good, Master of business administration and major in Finance and Industrial Management. Experience in Felt Base and Sheet Metal Industries, in planning, expediting, shop engineering, supervision. Earlier experience, processing and shipping, accountancy and floor layouts.

2. Young man, 30 years of age, married, two years college, with previous experience in accountancy and banking, desires position in motion economy program, being now engaged in studying these latter methods at New York University and the Motion and Time Study course being conducted by the Northern New Jersey Chapter at the Newark School of Engineering, Newark, New Jersey.

3. Young man, 31 years of age, single, New York University graduate in Industrial Engineering, wishes position as Works Manager, Assistant to President or General Manager of manufacturing concern. Experience in factory cost development, production control, job standardization, development of non-financial incentive plans. Industrial experience include Diesel engine and refrigerating machine manufacturers, railroads, airplane manufacturing, automobile and machinery manufacturers.

4. Man, 40 years of age, married, no children, New York University graduate of School of Commerce, Accounts and Finance. Taught accounting at the University as a faculty member, and was Director of the National Association of Cost Accountants. Exceptional experience. Accounting for wage incentives, installation of controls, installation of wage incentives, production planning, and machinery lay-out, public and private accounting and finance controls. Sales and Cost Engineer. Also experienced as manufacturing plant manager.

5. Man, 35 years of age, naturalized and a graduate electrical engineer in Switzerland. Further schooling in the United States. Experienced in design and drafting of power and sub-stations, lay-outs, detailing and diagrams. Estimating, drafting of A. C. and D. C. motors, gas burners for boilers and blast furnaces. Steel plate work, assembly and fitting of motor housings and covers. Lay-outs and detail drawings of water and gas supply systems.

6. Young man, mechanical and industrial engineer, Graduate of Stevens Institute of Technology. Experienced production supervisor. Planning. Costs.

APPLICATIONS RECEIVED (Cont'd.)

7. Young man, 34 years of age, married, no children, graduate Industrial Engineer, with experience as Industrial Consultant in marble and garage equipment organizations, also in time study and related work, desires position as Industrial Engineer, Junior Executive or Manager of small plant.

8. Man, 50 years of age, with engineering and accounting education, splendid service record and experience as Insurance consultant, safety engineer, industrial engineer, office manager and comptroller in color lithography organizations, desires position in any of preceding capacities.

9. Young man, 24 years of age, candidate for B. S. in Industrial engineering this year, with varied experience gained on vacation periods, desires position as Industrial Engineer.

10. Young man, 21 years of age, graduate mechanical engineer with statistical and drafting experience desires position in these capacities or time study, production control or factory management.

11. Young man, 25 years of age, graduate mechanical engineer with engineering and instruction experience and actual bench experience, desires work.

12. Man, 40 years of age, married, graduate Industrial engineer whose experience is too thorough and varied to detail, desires a connection of advantage. His record is in the National Office and will be forwarded on request.

13. Young man, 20 years of age, graduate in chemical engineering this June, has a splendid background, and some very good experience gained during vacation periods. Record available.

14. Man, 39 years of age, graduate engineer, with further extended education, desires position in wage system installation, cost accounting, statistical or any in related capacity. Experience in all phases of this type of work.

Editor's Note: Very few of these applicants express any territorial preferences.

* * * * *

Arrangements have been made with publishers of the Gantt Biography by Alford for the purchase of this fine book by Society members, at an appreciable reduction in price. Write Miss Buckley.

Twenty-five cents each will be paid from the National Society office of S. A. M., for copies of the Taylor Society Bulletins dated February, 1930, December, 1932, June, 1932, and February, 1933.

NEWS TOPICS

The smiling and genial Professor Julius C. Seidl will become a married man the morning of June 29th. His engagement to Miss Dorothea M. Loughran was announced in our last issue.

The presence of Miss Evelyn Buckley at the Eastern Regional Convention was another indication of this young lady's loyalty to our Society.

Mr. John Paul Jones, President of the Chicago Chapter and formerly with Standard Oil, is now with McKinsey, Wellington and Company and will operate from Chicago.

Mr. Milford D. Murrows, formerly of Washington, has become affiliated with the Business Research Corporation of Chicago.

Through the courtesy of Dean P. H. Daggett of the College of Engineering at Rutgers University, we have some interesting information on the licensing of Professional Engineers.

Don't forget the summer session in economics at the Engineering Camp of Stevens Institute of Technology. June 28th through July 5, 1936.

Washington Chapter held a dinner party April 15th, and a dinner meeting May 27th. This promises to be one of our most active chapters.

Professor Pio G. De Castro, College of Business Administration, University of the Philippines, writes with delight, of the fusion of the S.I.E. and Taylor Society, sends congratulations, and states that his group joins in hoping the S.A.M. will be the most outstanding organization of its kind in the management field. Thank you, Professor, and all your Associates.

Have you a manufacturing business for sale? We have a list of businesses in which a reliable purchasing group is interested.

The Third World Power Conference will be held in Washington, September 7th to 12th.

Visitors from foreign lands using the service of the National Office have been, Motowo Fukumoga of the Showa Steel Works, Anshan, Manchuria, H. P. Fisser, Assistant Manager, Vroom en Dreesman Chain and Department Stores, Holland, and M. Raymond Treuil of the Ministere de l'Economie Nationale, Paris.

Since our last issue, Mr. Ordway Tead has been busy speaking before a variety of Societies. Topics as usual, were interesting.

It is pleasant when looking through various periodicals, to find articles by people we know. For example, in the Independent Journal of Columbia University issued Friday, April 17th, is an article called "The Federalist" by Robert Teviot Livingston, and in the May *Mechanical Engineering*, Doctor Lillian M. Gilbreth and Elizabeth Faulkner Baker have both contributed.

New officers are being elected in various chapters. An announcement of such elections will be made in our next issue.

The News Letters released by the American Engineering Council of 744 Jackson Place, Washington, D.C. are well worth reading.

It is our painful duty to record the passing of one of our esteemed members, John F. Price, who was Secretary-Treasurer of the Cleveland Chapter and who was formerly a prominent member of The Society of Industrial Engineers. Our deepest sympathy and condolences are extended to his family and friends. We know that the Cleveland Chapter will sadly miss the good work of one of its most ardent supporters.

The splendid address we all heard at the Eastern Regional Convention by Dr. Clyde L. King, called "Business and Taxes" is now, through the efforts of Hon. James J. Davis of Pennsylvania, a part of the Congressional Record. It is worthy of such honor.

Martin B. Carter, Vice President of the Management Club of New York University School of Commerce, was tendered the Charles Gordon Smith award at a dinner marking the closing of this Club's activities for the year, on May 7, 1936. The award is a membership in the Society for the Advancement of Management, and is given to that member who has been outstanding in the promotion of management principles. Welcome Mr. Carter.

EASTERN REGIONAL CONVENTION NOTES

To those of us who have attended other conventions given over to Industrial and Management techniques, the Convention in Philadelphia was a revelation, and attendance figures are most interesting. There were five hundred thirty-eight registrations and sixty students attended. Chapters represented were Boston, Chicago, Detroit, New York, Northern New Jersey, Philadelphia, Rochester, and Washington. If other Chapters were represented, my apologies, as the members did not so signify.

Members attending from distant places were:-

E. J. Benge, Firestone Tire and Rubber Co., Akron, Ohio
J. A. Carlin, Carborundum Company, Detroit, Michigan
G. W. Delano, Medford, Massachusetts
Hugo Diemer, La Salle Extension University, Chicago, Illinois
Perry A. Fellows, Washington, D. C.
Stewart M. Lowry, Procter and Gamble, Ivorydale, Ohio
John W. Marder, Marder & Company, Rochester, N. Y.
W. J. McAllister, Foxboro Company, Foxboro, Massachusetts
T. W. Mitchell, Federal Trade Commission, Washington, D. C.
E. E. Olson, American University, Washington, D. C.
J. T. Otto, International Business Machines Corp. Endicott, New York
W. T. Patton, Westinghouse Air Brake Company, Wilmerding, Pennsylvania
S. R. Saunders, American Forging & Socket Company, Pontiac, Michigan
H. A. Schell, Remington Arms Company, Bridgeport, Connecticut
A. B. Segur, A. B. Segur & Company, Chicago, Illinois
J. C. Shover, H. O. L. C. Washington, D. C.
H. T. Smith, Massachusetts Institute of Technology, Boston, Massachusetts
A. Williams, Hood Rubber Company, Boston, Massachusetts

These and many others too numerous to mention must find real worth in our organization, and probably did not regret their long journeys.

In the order of their numerical attendance the meetings significantly point to what interests the convention goes in our particular field.

1. Time Study Meeting	415 persons
2. Motion Study Meetings	328 persons
3. Production Management	243 persons
4. Shop Equipment and Materials	134 persons
5. Retail Stores	85 persons
6. Plant Visits	15 persons

Members commenting to your editor were full of praise for the entire proceedings, but felt that necessary recreational periods had been sacrificed in order to present a quantity of quality speakers.

The fine cooperation of the Philadelphia Chamber of Commerce and The National Economy League is deserving of mention.

It would be impossible in our few pages to discuss all of the papers delivered or analyze their respective merits. However, full papers or excerpts will appear in future publications of the Society, with accompanying comments. It is your editor's opinion that of all the papers delivered, not one could be classed as of no interest, and each one was of real interest.

PLANT OPERATING and HUMAN ENGINEERING

By J. A. Garvey, Manager of Works

Dennison Manufacturing Company

Framingham, Mass.

Mr. Garvey's address dealing with Committee Responsibilities and Shop Practices is most interesting. It follows and is indicative of what steps are being taken in some industries, to acquaint labor with proposed changes and at the same time accept labor as a part of management.

Committee Responsibilities

Here we come to a point where labor unions and more than one management group have definitely put down Shop Committees as failures. The labor unions, because they claim, and probably rightfully so, that the Shop Committees are not militant enough, and by their very organization are not properly constituted to use the great weapon of organized labor, the strike. Managements have frowned upon the Shop Committee because they can show evidence - and cases, where a Shop Committee has refused to accept responsibility for action unfavorable to the employees, even though the facts were clear and agreed upon by the representatives.

However, if we still hold to our original definition of the Shop Committee as the machinery of mutual education, we cannot be expected to regard Shop Committees as failures on either of the two counts above. On the first count, my opinion is that if a Shop Committee cannot educate the management sufficiently to overcome real abuses - abuses that in themselves are sufficient to be cause for strike - the Shop Committee has no place in that particular company, and labor unionism, with its militancy and its ability to call for strikes, is the proper organization.

On the other count, we have learned from practical experience that a Shop Committee cannot be expected to go on record as favoring with the management some step which is inimical to the workers' interests - at least, not more than once. Such action is bound to create such a storm of criticism on the part of the large employee group that the lives of the representatives are made miserable and the use of the Shop Committee is very decidedly limited. Our experience has taught us that whenever such a thing as a wage decrease is necessary, management should first make their decision carefully; second, announce what they are going to do, and when; third, allow time for debate; fourth, accept, if possible, some compromise on details; but, finally, go ahead when the time arrives. The fact that time is allowed to debate shows both the representatives and the employees generally that the management is sure enough of their ground to be willing to have them consider their proposition from all angles, and have the opportunity of getting the necessary facts. The fact that the management is willing to accept compromises on certain details, indicates that they are not "hard-boiled"; and that they are not beyond listening to the other fellow's point of view.

It seems to me to be good reasoning neither to allow the Shop Committee to have a positive veto, nor to expect them to accept joint responsibility with the management for unpleasant legislation. This may sound illogical, but not if you believe as we do that the primary function of the Shop Committee is that of a Staff Department. There are few staff departments in this country which are looked upon as anything but advisory.

Committee Responsibilities (cont'd.)

To say that we could not get along without our Shop Committee would be equivalent to saying that we could not get along without our Rate Setting Department or our Methods Department, or our Cost Accounting Department. We could get along without any of them, of course, but we would have to expect a certain loss at first, and this loss would be increased with the length of time involved. Companies who did away with their Staff Departments during the depression now find themselves not where they were, but behind where they were when these departments ceased operating. Without staff department check-ups, operating men are bound to get slack and careless. This is exactly the way we feel about our Shop Committee, for without it we know that all of us in the operating departments would get careless as far as our personnel development is concerned.

Like any other staff department, the Shop Committee forces us to think policies through. It makes us certain that we are facing facts and not simply going ahead on prejudices or guesses. It makes all of us, particularly the foremen, watch our handling of people just as the Engineering Department forces us to watch our machines and see that they are properly oiled, greased, and repaired. It brings knowledge of situations which exist in the plant between the supervisory group and the employees, and it forces us to pay attention to these situations and not simply shrug them off.

No staff department makes an operating man's job any easier, and the Shop Committee is no exception to this rule. It does, however, make him do his job better. There have been times during the past seventeen years when I have been irked at some of the restraints which our Shop Committee put upon us; there have been times when I have been impatient because action was delayed while we endeavored to convince representatives that the policy of the management was the only possible one to follow; there have been occasions when, like any boy in school, I have felt that education was hardly worth while after all, and wanted to quit the course. But when I consider how much more alive every member of our management is to the human factor in our business, and how much less misunderstanding and misinformation there is in our plant today as compared to eighteen years ago, I am certain that our Shop Committee has been worth all the time, and thought, and money, which have been expended upon it.

It is my considered opinion that with a real Shop Committee, there is little chance of the sort of management continuing in operation which makes an organization easy prey to radical doctrines. Conflict there will be between management and labor, but not the sort of conflict that sets one group off in an armed camp, waiting for the moment when they can strike a fatal blow at the other. For this reason, if for no other, we feel that the Shop Committee has a right to be considered a vital part of organization engineering, and one of the few forward steps that have been taken in the past few decades towards a better integration of employees' desires and management's necessities.

CHAPTERS

The following chapters and sections of the Taylor Society and of The Society of Industrial Engineers have been reorganized as chapters of The Society for the Advancement of Management:

<i>Boston</i>		<i>Philadelphia</i>	
<i>President</i>	Albert S. Crockett	<i>President</i>	J. A. Parton
<i>Vice-President</i>	A. Paul Gerhardt	<i>Vice-President</i>	Robert C. Hall
<i>Secretary-Treasurer</i>	Archie Williams	<i>Secretary-Treasurer</i>	Geo. C. Harvey
<i>Chicago</i>		<i>Rochester</i>	
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<i>Secretary</i>	Andrew Anderson, Jr.		

The following chapters of The Society of Industrial Engineers are in process of reorganization as Chapters of The Society for the Advancement of Management:

Buffalo	Detroit	Los Angeles	Milwaukee	Pittsburgh
STUDENT BRANCHES				
Columbia University Student Branch			North Carolina State College Student Branch	
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Secretary.....Evald H. Gasstrom				
Manhattan Student Branch			Northeastern University Student Branch	
President.....John Allen			Division A	
Secretary.....Edward Gudelski			President.....Allen C. Shippee	
New York University Student Branch			Secretary.....James L. Richardson	
President.....Francis Finnerty			Division B	
Secretary.....Gennaro J. Russo			President.....W. L. Ganong	
The Newark College of Engineering Student Branch			Secretary.....P. C. Hamlin	
President.....Lester D. Polderman			Stevens Institute of Technology Student Branch	
Secretary.....Richard D. Weigand			President.....Parmely F. Pritchard	
			Secretary.....R. W. Miller	

TEAR HERE

Miss Evelyn Buckley
Office Manager
The Society for the Advancement of Management
29 West 39th Street
New York City

Please send membership application blank and information

Enclosed please find \$1.00 for subscription to the News Bulletin

Enclosed please find \$3.00 for subscription to the Journal

(members of the Society receive these publications as part of their membership privileges)

Name _____

Address _____

Please send information about your Society to the following:

Name

Address

THE SOCIETY FOR THE ADVANCEMENT OF NEWS MANAGEMENT BULLETIN



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NEWS TOPICS

CHAPTER NOTES

EXCERPTS

BOOK REVIEWS

CHAPTER PROGRAMS

PLACEMENT INFORMATION

Engineering Societies Building
29 West 39th Street
New York

December 1936

Vol. 1, No. 5

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THE SOCIETY FOR THE ADVANCEMENT OF MANAGEMENT

NEWS BULLETIN

Published By The Society for The Advancement of Management, Inc.
Engineering Societies Building
29 West Thirty-Ninth St., New York, N.Y.

COMMENT

Each member of our Society has received a ballot so that all may participate in electing worthy men as officers of our Society. It is a duty owed to all, that each of us signify our choice, from the splendid list offered. Send in your ballot now.

The annual conference of The Society for the Advancement of Management will be held December 2, 3, 4 & 5, 1936. A fine program is in store for us, and I feel certain those who reserve these dates and attend the conference will have no regret at so doing. Your attendance will also be a tribute to the fine officers we have had during the past year, who worked so hard to band us together in this strong, vital and active Society, and who after this conference will have relinquished their chairs to others. Attend, and let us all show how proud we are to be fellow members with our officers present, past and new, in a Society of such great promise.

This issue of the Bulletin will be the last before a fast approaching holiday season, and while the following sentiments may be a trifle early, they are at least sincere.

May the season bring you all happiness, and the New Year fulfilment of your every wish.

In our first paragraph we mentioned ballots. Now that a heated and expensive campaign has culminated in the re-election of President Roosevelt, it seems to this writer that our Society might well participate as an organ of management and a group of American citizens, in coming activities of national scope. Not in a political sense, but more fully to acquaint our members with those activities of direct relation to the aims of our Society.

From all sections, we are receiving word of Chapter activities which show how alive our Society has become in the very short time we have been organized. New Chapters, new members, new life. It is heartening too, to see so many student members joining our ranks.

How many of us are there who could not secure a desirable applicant of required qualifications for membership? How better might we show our faith in this Society and its aims? Let's do it, with the sure knowledge that an applicant must certainly benefit at least in knowledge, by becoming a member.

Before going to work on Mr. Otto F. Taylor as this month's victim, a few words to our retiring officers.

Thank you gentlemen, for the splendid job you've done this past year. You have established a record successors will do well to equal and find hard to surpass. With your continued and assured activity, their task will be much lighter, however, and the Society you value so highly will benefit the more. Stay active.

I think the membership as a whole will echo these words.

Mr. Otto F. Taylor, Treasurer and Director of the S.A.M., is a forceful appearing man when speaking. He is a member of the firm Webster, Horne, Blanchard and Taylor. Short of stature but of sturdy appearance, he gives the impression of being hard to know, but I am told is very pleasant when the reserve is broken. As to personal life, Mr. Taylor is proud of the fact he has two of the best children in the world, who are both smart and healthy. He says he works very hard for very little money, and spends it all but judging from the way he has administered the Society's finances, we doubt it, for we actually finished the fiscal year with money in the bank. Member of a number of accounting societies and with an enviable experience from which to draw, Mr. Taylor has proven the ideal man as Treasurer of our Society.

Professor George W. Barnwell is next, and all guns will be turned loose.

Editor

MOTION STUDY NOTES

By William R. Mullee

AMERICAN HARD RUBBER COMPANY, Butler, N. J.

Who would expect to find an appreciation of motion economy in a catalogue of precision chemical balances? We received a bulletin describing a new balance which reduces the number of motions the chemist must make in precision weighing and also makes use of the waiting time normally wasted while the beam is swinging. The result is a 75% time saving. Last month we found Motion Study in laundries, this month in the chemical laboratory, so we don't know what to expect next.

For the Motion Study Man who wants a simple tool to use in a tight place we found a flexible drive screwdriver and also a flexible drive socket wrench set built like a screwdriver. The shaft is of laminated steel wire that can twist around any obstruction, even at angles of 90 degrees. If you have a tricky assembly job this may be the answer to your prayer.

Last Summer this writer was invited to address the Rubber Section of the National Safety Congress on the subject of Motion Study and its relation to Safety. The talk was given in the Atlantic City Convention Hall and aroused quite a bit of interest. In digging out material for this talk we were surprised to see how well Safety and Motion Study were interlocked. We found that Safety was Motion Study's silent partner. The National Safety News presented this talk as a feature article in their November issue with two editorial references. A splendid opportunity to chase away the Safety Man's fears that Motion Study will ruin his safety record. One mid-west firm had 100 reprints made for their plant executives. If you can't locate a copy of this magazine, here are a few points mentioned.

Accident Statistics

Handling causes 25.9%

Hand and finger injuries 33%

Hand tools cause 7.6%

Fatigue increases frequency

Falling objects cause 8.7%

Motion Study's Answer

Process charts, holding fixtures, special trucks, combine clean up and get ready.

Foot pedals, normal work area, pre-positioning materials.
Prepositioning tools.

Lowest class motion, fewest therbligs, simultaneous motions, rhythm.

Tool kits, fixed work stations, drop delivery chutes.

One of our readers questioned the use of salt tablets to overcome industrial "heat sickness." A few months ago we were unable to give definite information. At the Safety Convention we found considerable data on this subject and also the names of many large industrial plants using salt tablets to a great advantage. These reports indicate that workmen using sodium chloride regularly during hot weather were more muscularly efficient throughout the working period and went home far less fatigued than formerly. Replacing the sodium chloride, lost through perspiration, quickened recovery from muscular exhaustion.

Another thing noticed at the Convention was a booth advertising the sale of workman's safety gloves separately for each hand. They claimed that accidents are caused by using wornout R. H. gloves and good L. H. gloves. We pointed out to the salesman that Motion Study would eventually cripple his sales talk by the simultaneous use of both hands.

(Get a copy of National Safety News for November and read Mr. Mullee's paper and the editorial comment.)

Editor

NEWS TOPICS

Again we call your attention to a splendid program offered by the New York Management Council and suggest you write Mr. Geo. W. Kelsey of G. W. Kelsey and Company at 101 Park Avenue, New York City, for a copy.

A carefully selected reading list on Business Administration, prepared by the faculty of the Amos Tuck School of Administration and Finance of Dartmouth College, is now available for general distribution at thirty (30) cents per copy. The list includes about 300 titles with a short summary of contents under each. A worthwhile list for any business man or executive to have.

King Hathaway, Consulting Engineer, announces the opening of his office at 1006 Merchants Exchange Building, San Francisco, California.

A paper presented before the Paint and Allied Industries Group of the New York Credit Men's Association by G. W. Kelsey of G. W. Kelsey and Company; Research Engineers, reprinted from Credit Executive, October issue, on "Getting and Facing Facts," is very interesting and would be worthwhile reading.

A fine reference "The Business Bookshelf" compiled by Marian C. Manley and Mary E. Hunt of the Newark Business Branch, Newark, N. J., Public Library under the direction of Beatrice Winsor, comes to our attention. Price \$2.00.

"Social Security," a selected list of references on unemployment, old age and health insurance, prepared by the Industrial Relations Section, Department of Economics and Social Institutions at Princeton University, is a real asset. Splendidly prepared by Helen Baker, Librarian, with foreword by J. Douglas Brown, Director.

In the "Bulletin Du Comite National Belge de L'Organisation Scientifique" of September, we find W. H. Leffingwell's famous code on "How to Manage."

In "Industry Illustrated" for the same month we find "Use of Order Point in Stock Control" by Wallace Clark, and in the same publication we find reviews of papers by Paul S. Achilles and Leon C. Stowell.

Ordway Tead, President of our National Society, addressed the Special Libraries Association, New Jersey Chapter at Newark, N. J., October 8, 1936, on "Organized Information as Industry's Right Hand Partner."

In C.N.O.F., Bulletin du Comite National de L'Organisation Francaise, are found papers by Henry Le Chatelier and Charles de Freminville. October issue.

CHAPTER NOTES

The suggestion has been made that we list the meeting dates and places of our various chapters in this Bulletin. While we know some, a complete list is not available. All Chapter secretaries please note and forward information so that a listing may be made in our next issue. Last call.

The New York Chapter Membership directory has been completed and is a very fine piece of work. Congratulations Mr. Payne.

Boston Chapter will have conducted a meeting by the time this Bulletin is issued, on "How to start the coming boom in work and wages," with Mr. Allen Rucken of the Eddy, Rucker, Nickels Company, as speaker. Certainly, a leading topic of the day. Boston also reports an advanced group on Motion and Time Study which is very much alive, and that the Chapter is conducting round table discussions on the tool subjects of management and industrial engineering. Other Chapters look out for your laurels.

Northern New Jersey Chapter reports heavily attended meetings, fine speakers and an increasing membership, together with what is proving a very successful and instructive series of meetings on Motion and Time Study. Copies of programs for both regular and Motion and Time Study group meetings may be had by writing Mr. Andrew Anderson, Jr., Secretary, % Monroe Calculating Machine Company at Orange, New Jersey.

New York Chapter announces a very interesting meeting on "Costs - The First Step in Management," which also will have been over when this Bulletin is issued.

CHAPTER NOTES (cont'd.)

We sincerely regret that meetings of real importance such as the Boston and New York Chapter events are announced so late, but as this publication is released every second month, and programs of all Chapters are not forwarded complete for each season, we can do no better than note that a particular topic was timely. Those meetings about which we have advance notice will be printed.

New York University Student Chapter was host to Manhattan College, Stevens Institute, and Newark College of Engineering Student Chapters on October 28, 1936, at which gathering a topic "The College Graduate of Today and of Fifteen Years Ago," was discussed by Mr. Donald Bridgeman, Personnel Department, American Telephone and Telegraph Company.

At the same meeting Mr. S. G. Ryan, Personnel Director of S. S. White Dental Manufacturing Company spoke on "Personnel Problems of the Present Day." More than forty students attended.

The Stevens Institute of Technology Student Chapter will be host at another meeting in the early part of January next.

Incidentally, Saturday, December 5th, last day of the National Conference will be given over to our Student members. Let us one and all get behind these young men and encourage them.

Detroit Chapter is rapidly becoming a strong unit.

EXCERPTS

By Floyd H. Rowland, Management Consultant, in a paper delivered before the New York Chapter, September 16, 1936.

"When a consultant is retained by Management, he assumes responsibility for the following:-

1. Supplying the technic necessary to solve problems in question.
2. Determining fitness of executives to carry out his program.
3. Developing a comprehensive program and the means to carry it out.
4. The task of selling his plan to all.
5. Functioning as co-ordinator to bring about a smoothly operating organization.
6. Training the clients' executives to carry on his program.
7. Discovering and removing obstacles which hinder successful operation of his program, such as:
 - A - Inadequate physical equipment
 - B - Shortage of capital
 - C - Elimination of personal equations due to company politics, jealousies and other faults."

By Sanford E. Thompson in his paper "Improved Pulp and Paper Quality through Incentives."

"Fundamental principles which it has been found should be observed in developing incentives in the making department of a paper mill may be summarized:

1. They should include quality as predominating over the production factor.
2. They should reward operatives who are responsible for the qualities required, for example, the beater men may be included in the group with the machine tenders.
3. They should be set only after standards have been fixed for the various elements of quality and production.
4. They may be made so as to provide competition between tours. The most important savings are due to the greater uniformity of quality which reduces defects with consequently fewer returns and complaints."

Editor's Note: These are wise principles applicable to any industry.

In an open letter to "Industrial Executives of America," by Stevenson Jordan and Harrison, Management Engineers of New York City, accompanied by a very interesting management appraisal chart.

"We have found that firms rating *Superior* are firms enjoying satisfactory profits, those rating *Average* are fortunate if they are breaking even; while those rating *Inferior* are losing money very rapidly and their very existence will be of short duration."

BOOK REVIEWS

A program for Modern America. By Harry W. Laidler, Thomas Y. Crowell Company, New York, 1936, pages x, 517. (\$2.50)

Executives who have been confined closely to their own operating concerns, hard pressed by the urgencies of keeping costs down and figures in the black, often find it hard, if not impossible, to understand why that vague something called industrial unrest should be a fact. They tend to turn impatiently from such interest in generalized social welfare because of their inescapable knowledge of the complexities confronted in running even one factory or corporation really well.

Yet such a general swell of interest in viewing our economic issues from a public standpoint exists and in a depression grows in magnitude and in insistence. It grows partly from self-interest among those whom the emergency bogs down into insecurity, debt and destitution. But it grows also from that increasing array of middle-of-the-road citizens who are coming gradually to realize that the sum of the pursuit of self-interests by all business men is not inevitably an assurance that the public interest is being best served. More people than ever are today ready to admit that upon many economic issues there has to be a public policy no less than many corporate policies.

It is for such as these that this book is designed. For it offers a factual approach to the economic, political and social dilemmas of our day. And without sentiment but solely on the basis of the record, the author offers an itemized and fairly comprehensive program of next steps.

The program is opportunistic, not utopian. It goes beyond the stands taken in the recent political platforms of the two great parties. But for that very reason it may help some courageous readers to understand why the so-called New Deal program takes the general point of view which it does, as representing a growing tendency of social outlook.

The book is to be commended to business men who have a sincere desire to orient their thinking in respect to an upthrust of reform advocacy which they do not understand, do not sympathize with and believe to be provoked by "outside agitators." By Ordway Tead, Editor of economic books, Harper & Brothers, and lecturer on personnel subjects, Columbia University, New York.

The Psychology of Dealing with People. By Wendell White, The Macmillan Company, New York, 1936, pages xiv, 256. (\$2.50)

As Psychology is brought down from its lofty pedestal and obtuse jargon, it becomes increasingly useful in every day affairs. Administrators, management engineers, and personnel officials are more and more asking how can psychology be put to work.

Granted, that your boss is driven by an inferiority complex or that your co-worker is a man-hating spinster, how are you not only going to get along with them in a passive sort of way, but actually work constructively? Written in a very simple style, *The Psychology of Dealing with People* gives practical suggestions for handling problems in personal relationships in chapter headings like these: Presenting our Ideas Indirectly; Acknowledging the Personal Worth of Others Indirectly; Removing Objectionable Ideas Inoffensively; Enabling Others to Gain Distinction for Ability.

The earlier chapters stress the importance of verbal communication in personal relations. Later chapters, however, get into deep water, especially when dealing with the manner in which subconscious and repressed wishes may obtrude themselves into personal relations. Our really complicated emotional problems come out of the mechanisms of "transference" "projection" and "resistance." These are technical terms but they are handled wisely and managers who are becoming increasingly aware

of the psychology of organization will find many helpful suggestions. By John J. Hader, Technical Advisor, Division of Unemployment Compensation, Social Security Board, Washington, D. C.

Report of the Special Commission to the Commonwealth of Massachusetts. By John J. Murray, Elliott Earl and Abraham C. Webber, Wright & Potter Printing Company, Boston, January, 1936, pages 264.

The Special Commission established to investigate relative to the Sliding Scale system of rate regulation unanimously urged the adoption of that method of regulation in its report to the General Court of Massachusetts in January, 1936. The majority report stated that "rate regulation in this Commonwealth is at best periodic" and "this commission is of the opinion that the regulation of the rate of return is largely a failure." It was stated that insufficient funds and lack of adequate personnel might be in part the cause of this failure. Under the proposed legislation, a Sliding Scale Division properly staffed would be established in the Department of Public Utilities to administer the Sliding Scale arrangement arrived at by agreement between the Commonwealth and the Company involved. The initiative towards such arrangement might be taken by the New Director, officers of a municipality or by a company. Expenses incurred would be met through a revolving fund contributed to by the companies adopting the plan. Enactment of legislation removing the present obstacles to municipal competition was suggested as an effective means of bringing about the adoption of the Sliding Scale System. In a supplemental minority report in support of the past record of the Department of Public Utilities the wide diversity of the Department's functions was pointed out and in consideration of the judicial restrictions and statutory limitations, in some essential matters, it was felt that the Department had done remarkably well in a difficult situation.

The statistical tables contained in this report indicate the excessive earnings of some companies over a period of years and serve to focus attention on the need for a well staffed and efficient regulatory body if effective regulation is to be obtained.

Some automatic means of regulation which can assist a regulatory body in its problem of regulation is well worth considering. If such a plan were adopted, the big problem would be that of establishing a reasonable "bench mark" for the value of the property as a starting point. By H. Zinder, Chief Rate Analyst, Rural Electrification Administration, Washington, D. C.

COMPLETE PROGRAMS - 1936-1937

Meeting Places, Topics, and Speakers for Regular Meetings

Only those meetings not yet conducted, are listed.

Northern New Jersey Chapter at the Club Room, Hotel Douglas, 15 Hill Street, Newark, New Jersey.

December 10, 1936 - "Commonsense Viewpoint of Time and Motion Study", by F. J. Van Poppelen, Industrial Engineer, Remington Arms Company.

January 14, 1937 - "Practical Production Control", by James A. Parton, Director of Standards Department, E. G. Budd Manufacturing Company, and John E. Black, Eclipse Aviation Company.

February 11, 1937 - "Industrial Problem Clinic", Chairman, Dr. M. A. Dittmar of Lehn and Fink, Inc., Speakers, H. A. Cozzens, Jr., American Hard Rubber Company, F. P. Joralemon, Irvington Varnish and Insulator Company, and K. T. Willetts, Joseph Dixon Crucible Company.

COMPLETE PROGRAMS (Cont'd.)

March 11, 1937 - "Industrial Relations in Practice", by S. F. Larchar, Personnel Manager, Thomas A. Edison, Inc., and Gerret R. Schenck, Industrial Relations Counsellors, Inc.

April 8, 1937 - "Modern Purchasing", by Carlton Reynell, Purchasing Agent, Worthington Pump Company, and "When is the Purchase of New Equipment and Machinery Justified", by W. P. Kirk, Vice President, Pratt and Whitney Company.

May 13, 1937 - "Self Management", by F. B. Shannon, Employment Manager, Western Electric Company.

May 22, 1937 - Social Night.

Boston Chapter at Walker Memorial Building, Charles River Road, Cambridge, Mass.

December 17, 1936 - "Flexible Wage Problems", by Professor Sumner Slichter of Harvard Business School.

January 28, 1937 - "Taxation and Industrial Readjustment", by Henry F. Long, Commissioner of Corporations and Taxation, Commonwealth of Massachusetts.

February 25, 1937 - "Industrial Unionism - Organized Labor's New Frontier", Speaker to be announced.

March 15, 1937 - "Intelligent Human Engineering", by Ordway Tead, President, Society for Advancement of Management.

April 22, 1937 - "Decentralization of Manufacturing and Merchandising", Speaker to be announced.

May 27, 1937 - A Symposium (Annual Meeting) Program to be announced.

New York Chapter at Metal Trades Exhibit Auditorium, Rockefeller Center, New York City.

Speakers un-announced as yet.

December 16, 1936 - "Standards and Incentives, Good Practice".

January 20, 1937 - "Round Table Discussion on Budgeting".

February 17, 1937 - "Research -- Looking Ahead with Management".

March 17, 1937 - "Round Table Discussion on Management in Various Industries".

April 21, 1937 - "Statistics -- A Neglected Tool of Management".

May 19, 1937 - "Personnel -- One of the Limits Within Which Management Must Function".

June 16, 1937 - Business Meeting.

PLACEMENT INFORMATION

There is an opening available for a young man with Ph.D. or equivalent in training, who has had practical writing and research experience, for a year or a year and a half of research and writing on a book on management being compiled. The salary will be \$25.00 a week and part profit on the book.

Our placement service continues as usual. Correspond with Miss Evelyn Buckley, Office Manager, Society for the Advancement of Management, 29 West 39th Street, New York City.

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